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July 18, 2005

BY OVERNIGHT DELIVERY AND E-FILE

Mary L. Cottrell, Secretary  
Department of Telecommunications and Energy  
One South Station  
Boston, MA 02110

Re: Bay State Gas Company, D.T.E. 05-27

Dear Ms. Cottrell:

Enclosed for filing, on behalf of Bay State Gas Company ("Bay State"), please find Bay State's responses to the following Information Requests:

From the Attorney General:

AG-8-10      AG-8-25 (Rev.)      AG-22-1

From the Department:

DTE-3-33      DTE-18-09      DTE-18-10

From the UWUA:

UWUA-1-2 (Bulk)      UWUA-3-33

Please do not hesitate to telephone me with any questions whatsoever.

Very truly yours,

Patricia M. French

cc: Per Ground Rules Memorandum issued June 13, 2005:

Paul E. Osborne, Assistant Director – Rates and Rev. Requirements Div. (1 copy)

A. John Sullivan, Rates and Rev. Requirements Div. (4 copies)

Andreas Thanos, Assistant Director, Gas Division (1 copy)

Alexander Cochis, Assistant Attorney General (4 copies)

Service List (1 electronic copy)

COMMONWEALTH OF MASSACHUSETTS  
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

RESPONSE OF BAY STATE GAS COMPANY TO THE  
EIGHTH SET OF INFORMATION REQUESTS FROM THE ATTORNEY GENERAL  
D. T. E. 05-27

Date: July 18, 2005

Responsible: Earl M. Robinson, Consultant (Depreciation)

AG-8-10      Net Salvage - Please identify the cost of removal incurred by year for  
Accounts 376 and 380 associated with damage due to an outside party's  
actions (e.g., contractor causes a breach in a pipe, etc.).

Response:    The expenses incurred by a contractor are recorded in an O&M account.  
The contractor would be invoiced for all damages. Monies received from  
the contractor or his insurance company are netted against the cost of  
repair. No expenses or proceeds are charged against cost of removal.

COMMONWEALTH OF MASSACHUSETTS  
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

RESPONSE OF BAY STATE GAS COMPANY TO THE  
EIGHTH SET OF INFORMATION REQUESTS FROM THE ATTORNEY GENERAL  
D. T. E. 05-27

Date: July 18, 2005

Responsible: Earl M. Robinson, Consultant

**REVISED**

AG-8-25      Data - Regarding reference at page 8 and elsewhere in Mr. Robinson's direct testimony to "future expectations" obtained from the Company, please provide all written documentation associated with each future expectation referenced, including but not limited to inquiries by the depreciation consultant and responses from the Company. The information should identify which accounts the information corresponded to and how each item of information affected the selection of any mortality characteristic, whether life or salvage related, and the degree to which it impacted the ultimate level of mortality characteristics proposed in the depreciation study. Finally, provide all underlying support and justification, including all workpapers, assumptions, considerations, and material reviewed and/or relied corresponding to each future expectation.

Response:      Such expectations relate to how property is currently being operated and how such operations affect the accounting activity being generated and how current and future operations may change from the experience of the past. As a result of discussions with Company's management, it is anticipated for the most part, excluding the Company's Bare Steel program (and potential impact of the Company's Cast Iron Mains) and its Metscan devices, it is more or less business as usual with regard to the use of the property and the anticipated service life of the Company's assets. Material changes are not envisioned and/or estimated at the present time. With regard to net salvage factors, such costs have been increasing over time and are anticipated to escalate further in future years.

COMMONWEALTH OF MASSACHUSETTS  
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

RESPONSE OF BAY STATE GAS COMPANY TO THE  
TWENTY-SECOND SET OF INFORMATION REQUESTS FROM THE ATTORNEY  
GENERAL  
D. T. E. 05-27

Date: July 18, 2005

Responsible: Joseph A. Ferro, Manager Regulatory Policy

AG-22-1 Refer to the response to AG-1-72. Please provide all workpapers, calculations, data and assumptions supporting the Company's year end unbilled revenue. Using the methods and computations described in this response, calculate the unbilled revenue for each customer class for the year end 2003 and compare to actual class revenues for December 2003. Explain any class variance of 1% or greater.

Response: Attachment AG-22-1 provides the analysis requested on billed versus unbilled revenues and average revenue rates.

Differences in billed versus unbilled revenue and average rates are to be expected in general because of the different time periods covered in the two sets of revenue. More specifically, differences result from:

- Actual billed revenue includes billing adjustments, some of which relate to gas use for past periods, in which CGA rates were different than those in the current period, while unbilled revenue is calculated for a set period.
- December billing period weather could be much different than the unbilled December period significantly affecting the average use per customer. Differences in average use per customer cause differences in average rates due to the head/tail block rate structures.
- The number of days of gas use in the actual billing period of certain rate classes, or customer categories, can be different than the number of days in the unbilled period. This will cause a significant variance between billed and unbilled revenue.

Bay State Gas Company  
 Witness: Joseph Ferro  
 D.T.E. 05-27  
 Attachment AG-22-1

<b>December 2003</b>	Billed Volumes	Billed Revenues	Billed Average Rate	Unbilled Volumes	Unbilled Revenues	Unbilled Average Rate	Difference	%
Residential Tariff	3,301,728	38,408,192	\$11.63	1,933,309	23,491,411	\$12.15	\$0.52	4%
Commercial Tariff	1,017,217	9,896,531	\$9.73	820,668	7,233,360	\$8.81	(\$0.92)	-9%
Industrial Tariff	354,934	2,968,296	\$8.36	572,611	2,687,841	\$4.69	\$3.67	44%

COMMONWEALTH OF MASSACHUSETTS  
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

RESPONSE OF BAY STATE GAS COMPANY TO THE  
THIRD SET OF INFORMATION REQUESTS FROM THE D.T.E.  
D. T. E. 05-27

Date: July 18, 2005

Responsible: John E. Skirtich, Consultant (Revenue Requirements)

- DTE-3-33 Refer to Exh. BSG/JES-1. Please provide with supporting calculations two schedules similar to Exh. BSG/JES-1, Sch. JES-17, at 3, with the following revisions:
- 1) a schedule with an additional column for 2004 costs that includes the \$8 million spent on steel mains replacement and a revised average for the five-year period; and
  - 2) a schedule with an additional column for 2004 costs that excludes the \$8 million spent on steel mains replacement and a revised average for the five-year period.

Response: 1) Table DTE-3-33 below adds 2004 direct expenditures for steel main replacements and calculates a revised average for the five-year period. These types of expenditures for 2004 are consistent with the direct expense levels listed for 2000 - 2003, all of which exclude overheads. Overheads are added to these direct expenses in page 4 of BSG/JES-1, Sch. JES-17.

**Table DTE-3-33**

<b><u>Ln.</u></b> <b><u>No.</u></b>	<b><u>Description</u></b> <b>(1)</b>	<b><u>2000</u></b> <b>(2)</b> <b>(\$)</b>	<b><u>2001</u></b> <b>(3)</b> <b>(\$)</b>	<b><u>2002</u></b> <b>(4)</b> <b>(\$)</b>	<b><u>2003</u></b> <b>(5)</b> <b>(\$)</b>	<b><u>2004</u></b> <b>(6)</b> <b>(\$)</b>	<b><u>Average</u></b> <b>(7)</b> <b>(\$)</b>
<b><u>Bare Steel Replacement Costs</u></b>							
1	Mains	1,683,647	3,555,845	2,533,660	3,161,644	4,688,027	3,124,565
2	Services	744,544	1,324,186	1,077,621	1,186,583	1,259,116	1,118,410
3	Other Additions	<u>130,265</u>	<u>292,982</u>	<u>224,915</u>	<u>249,083</u>	<u>272,071</u>	<u>233,863</u>
	Total Cost	2,558,456	5,173,013	3,836,196	4,597,310	6,219,214	4,476,838

(2) The Company cannot discern from its books and records the "incremental" portion of the unprotected steel replacement expenditures incurred in 2004. Simply stated, Bay State is unable to distinguish, both from an operating and an accounting perspective, between the same type of replacement facilities being installed as part of one project versus another (i.e., six inch plastic replacement pipe installed on Elm Street in Marshfield is coded into the Work Order Management System and accounted for in the Asset Management System the same way as six inch plastic replacement pipe installed on Maple Street in Brockton even though there are two distinct project identifiers used to capture all the costs associated with each respective project). Therefore, the Company has designed its proposed Steel Infrastructure Replacement ("SIR") program, for purposes of cost recovery, to take the total amount of replacement facilities installed in a given year for all completed projects and remove an average annual level of historical expenses so that only the incremental portion of expenses associated with the eligible facilities installed in a given year are recoverable through the ABRAM. The Company considers this proposal, which is a regulatory construct for ratemaking purposes, to be a fair and reasonable approach toward keeping the Company whole while under a PBR program (or between rate cases).

Therefore, the reason why Bay State's SIR program proposal only includes the 2000 through 2003 capital expenditures as the basis for adjusting future levels of dollars that flow through the ABRAM is because the 2004 levels include an accelerated level of replacement expenses that otherwise can not be distinguished from historical levels. Further, the reason that 2004 replacement expenses are higher than in years past is that the Company made the prudent determination in 2004, based on its best management judgment, experience, and review of the relevant data, that the existing unprotected steel infrastructure is reaching the end of its useful life, and that the SIR program represents the best way to replace these facilities in the most time efficient and cost effective way.



COMMONWEALTH OF MASSACHUSETTS  
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

RESPONSE OF BAY STATE GAS COMPANY TO THE  
EIGHTEENTH SET OF INFORMATION REQUESTS FROM THE D.T.E.  
D. T. E. 05-27

Date: July 18, 2005

Responsible: Earl M. Robinson, Consultant (Depreciation)

DTE-18-09 Refer to Exh. BSG/EMR-2, at 4-478. Please explain the cost of removal experienced for retired plant in Account 366 (Structures and Improvements) during the year 1999.

Response: The Company's accounting record retention in their asset management system only provides for five years of history. This charge for \$629.83 cannot be specifically identified.

COMMONWEALTH OF MASSACHUSETTS  
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

RESPONSE OF BAY STATE GAS COMPANY TO THE  
EIGHTEENTH SET OF INFORMATION REQUESTS FROM THE D.T.E.  
D. T. E. 05-27

Date: July 18, 2005

Responsible: Earl M. Robinson, Consultant (Depreciation)

DTE-18-10 Refer to Exh. BSG/EMR-2, at 4-481. For Account 390 (Structures and Improvements), please explain the \$10,500 in removal costs experienced in 2001.

Response: The \$10,500 was paid to Besttech, Inc. in June 2001. The invoice containing the detail of the work is unavailable for review.

COMMONWEALTH OF MASSACHUSETTS  
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

RESPONSE OF BAY STATE GAS COMPANY TO THE  
FIRST SET OF INFORMATION REQUESTS FROM UWUA LOCAL 273  
D. T. E. 05-27

Date: July 18, 2005

Responsible: Stephen H. Bryant

**BULK RESPONSE**

UWUA-1-2 For the period September 1, 1997 to date, please provide any and all reports, studies, internal memoranda or e-mails regarding any of the following topics:

(a) increasing or reducing the staffing level among Bay State employees as a whole, or at any particular location (e.g., at the Westborough headquarters or within the Brockton, Springfield or Lawrence divisions), or by function (telephone call center, management/accounting/legal, "physical" workers, etc.).

(b) outsourcing of any jobs performed by Bay State employees to outside vendors or any entities, including to other NiSource affiliates or subsidiaries.

(c) the company's internal discussions and analysis of or response to the actions of the New Hampshire Public Utilities Commission in terms of establishing service quality standards and the resulting fines that the company paid in NHPUC DG 01-182 or any related docket. Please include in this response any and all written and electronic communications regarding any increases (or decreases) in the Springfield call center staffing levels on or after January 1, 2003.

(d) To the extent not already provided in response to this question, please describe the role that Steve Bryant may have played in any changes to the staffing level at the Springfield call center since January 1, 2001. Also describe the roles of other managers, supervisors, or executives. Include all internal communications between Mr. Bryant and any other Bay State or NiSource officer, employee or executive.

Response:

(a) Please see Attachment UWUA-1-1 (A). This Attachment illustrates the changes in staffing levels between 1997 and 2005 for each of the Company's divisions and union versus non-union employee categories. Changes in staffing levels are not available by function.

(b) See Attachment UWUA-1-2 (A) Parts 1 through 8 for all currently available management material related to staffing changes at Bay

State between 2000 and 2004. These materials discuss the evolution of staffing level changes at Bay State, including the elimination of certain positions as well as the movement of functions and employees to outside vendors or NiSource affiliates.

Materials describing NiSource's outsourcing initiatives for 2005 have been provided in DTE-18-1. As this process is ongoing, specific staffing level changes and the movement of functions continues to occur.

- (c) In September 2002, Northern Utilities, Inc. entered into a negotiated settlement agreement ("Settlement Agreement") between the Office of Consumer Advocate and the Staff of the New Hampshire Public Utilities Commission. The New Hampshire Public Utilities Commission subsequently approved the Settlement Agreement on October 28, 2002. See Attachment UWUA-1-2 (B) for a copy of the Settlement Agreement, and Attachment UWUA-1-2 (C) for a copy of the Order approving the Settlement Agreement.

Although the Company is not able to produce specific materials related to the negotiations among these parties, because these negotiations were conducted in confidence, Northern Utilities did agree to terms establishing service quality standards as set forth on pages 7 – 9 of the Settlement Agreement. The penalty structure agreed to in the Settlement Agreement established monthly and quarterly performance targets for five different measures. Failure to meet any or all of these performance targets results in the Company paying a \$5,000 penalty in that month. Between the months of January 2003 through June 2003, the Company was unable to meet its performance targets for Non Emergency Telephone Service and Busy Out measures, resulting in a total of \$30,000 in fines. The Company's response to USWA-2-20 includes the relevant Northern Utilities New Hampshire Division Service Quality Reports.

As part of the Settlement Agreement, the performance target for the Springfield Call Center to answer non-emergency calls was set at 80% of the calls being answered within 30 seconds. See Attachment UWUA-1-2 (D) for copies of all written and electronic communications regarding any increases (or decreases) in the Springfield call center staffing levels on or after January 1, 2003.

See also the Company's response to UWUA-1-8 for copies of materials from Docket No. 2002-140, which was the Maine Public Utilities Commission's management audit investigation. Included in the XENERY Audit Report is a discussion and documentation of the Springfield Call Center staffing levels during the period in question.

- (d) Mr. Bryant's role in any changes to the staffing level at the Springfield Call Center since January 1, 2001, was to ensure focus on meeting the established service quality performance levels in the most

efficient and cost effective manner. As indicated in the materials provided in Attachment UWUA-1-2 (D), the roles of other managers, supervisors, or executives are summarized below:

Violet Sistovaris – Senior Vice President NiSource Administration  
Services  
Chuck Shaffer – Vice President Meter To Cash  
Pat Teague – Manager Customer Contact Center  
Mike Davidson – Manager Performance Management



# Project Compass

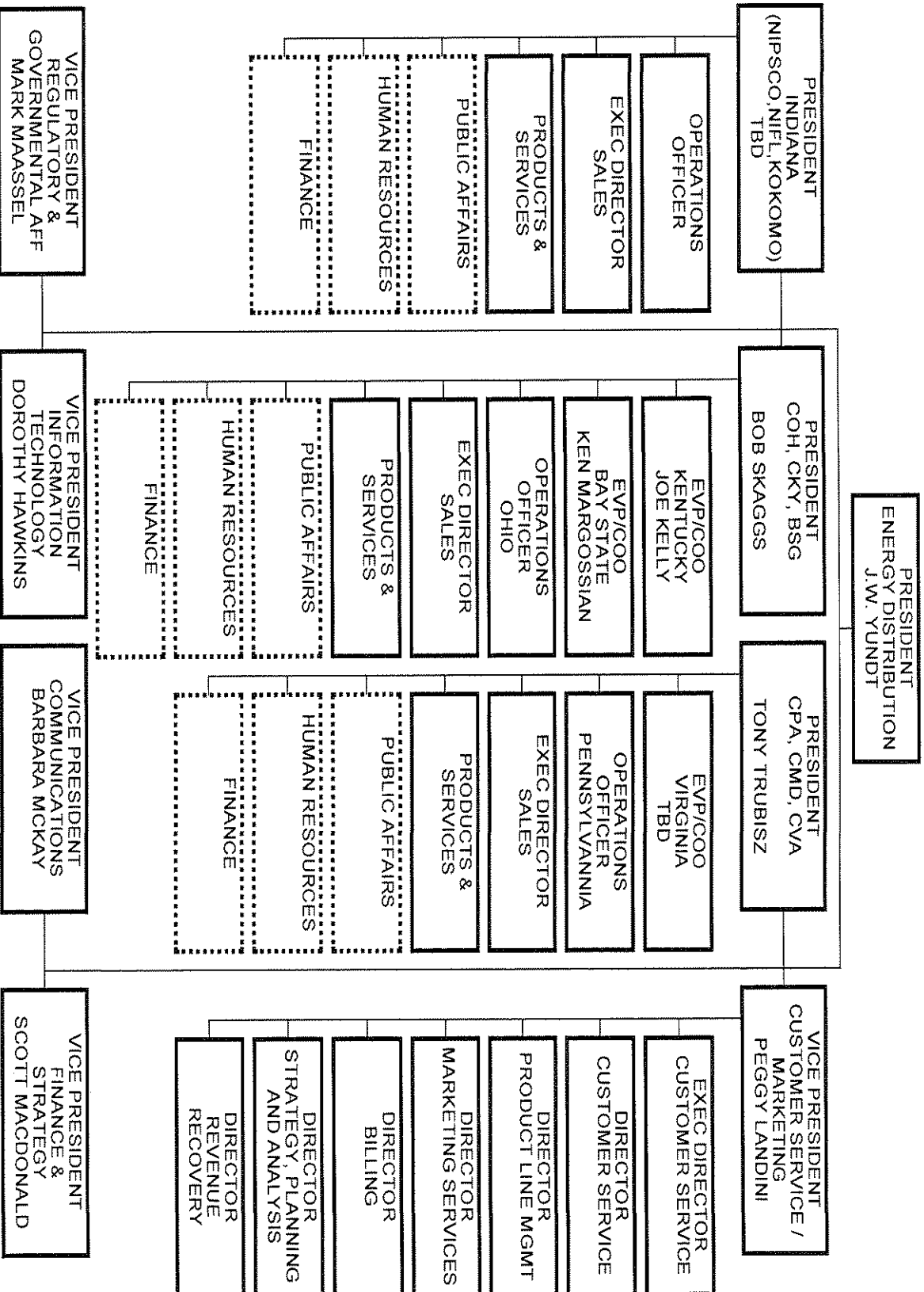
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**Update Discussion with Jeff Yundt  
Distribution**

**August 24, 2000**

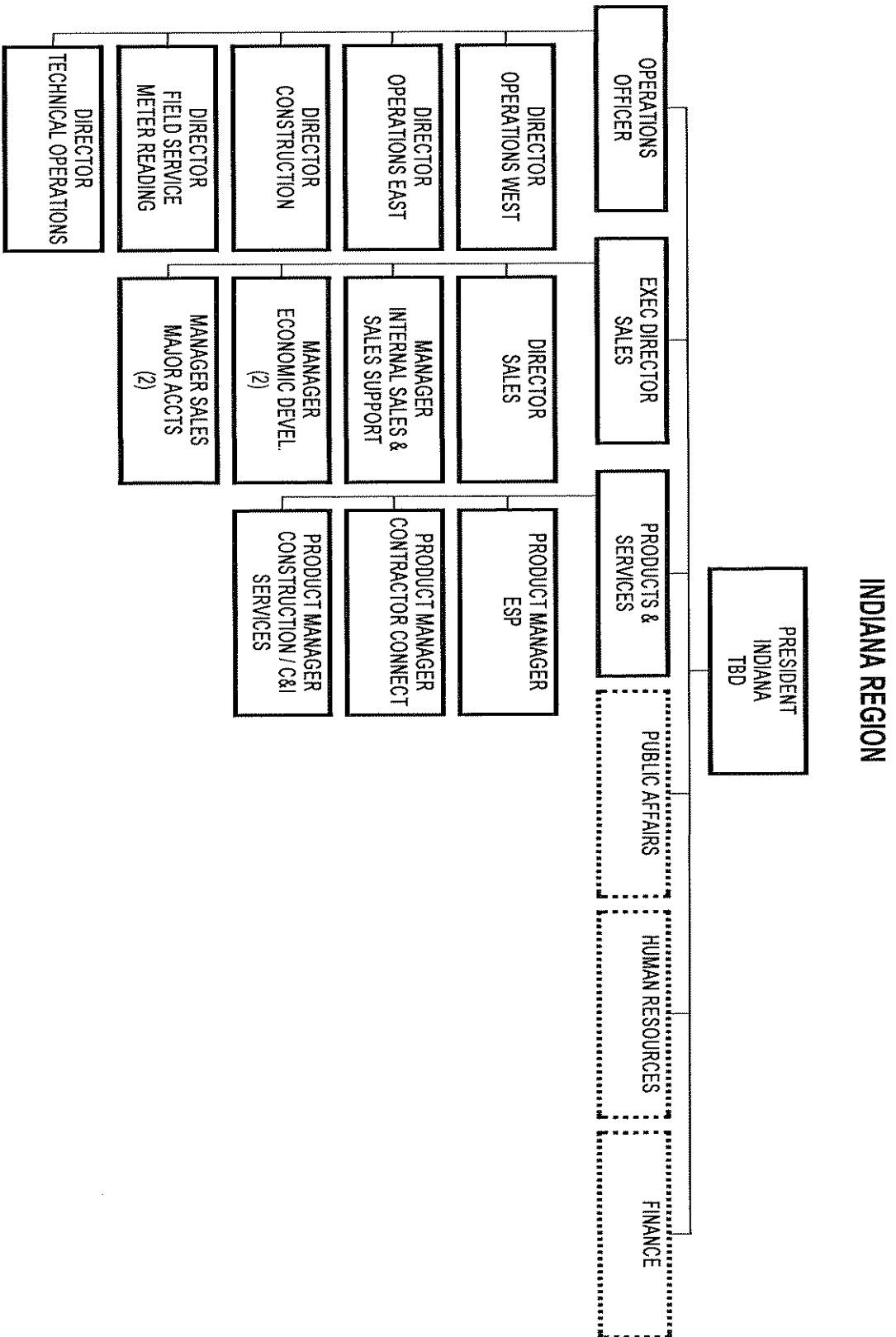
# Energy Distribution - Gas Operations

## Organization Structure



# Energy Distribution - Gas Operations

# Organization Structure



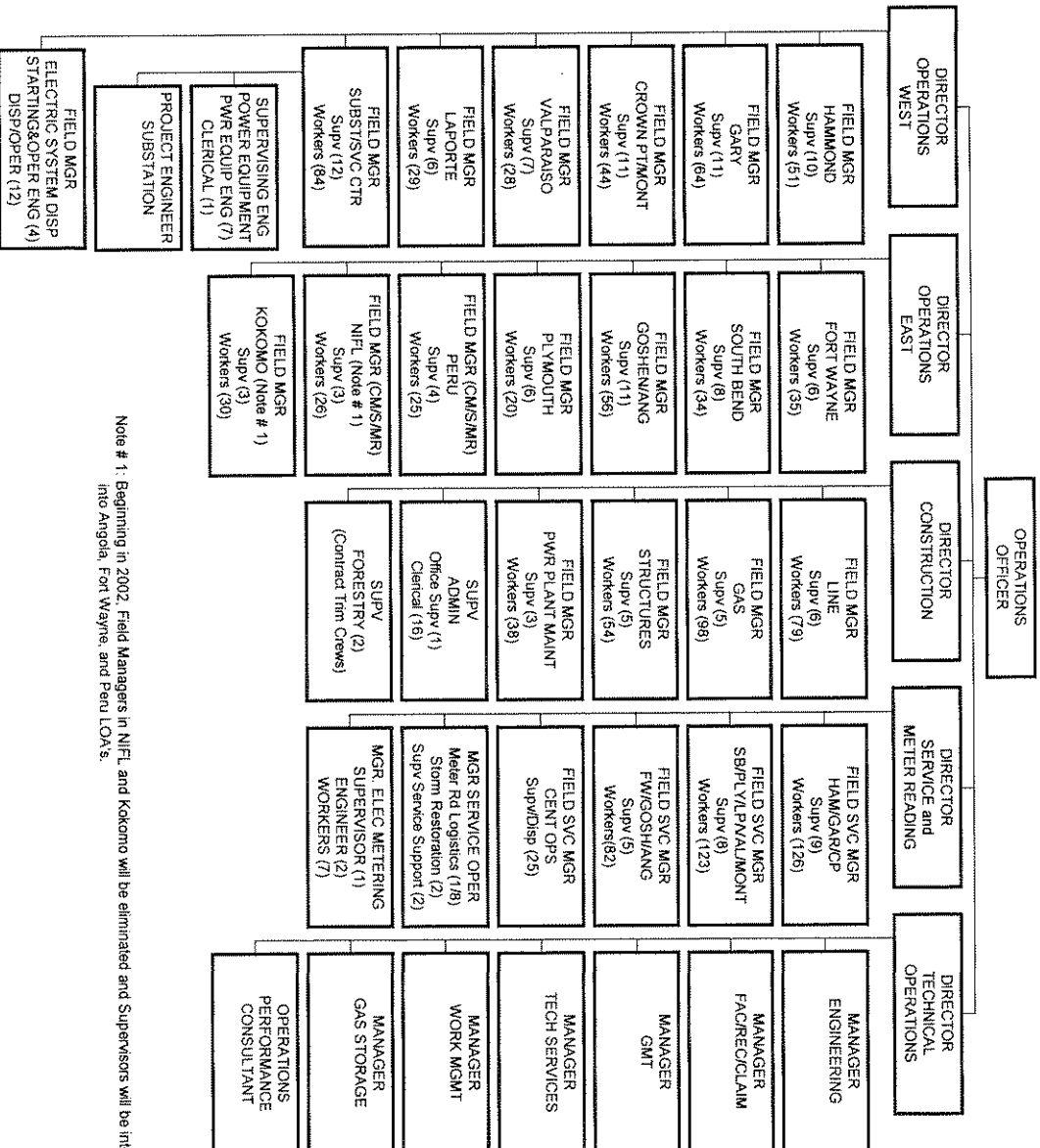


# Energy Distribution - Gas Operations

## Organization Structure

INDIANA REGION  
(NIPSCO/NIFL/KOKOMO)  
OPERATIONS

Bay State Gas Company  
D.T.E. 05-27  
Att. UWUA-1-2(A) Part 1  
Page 4 of 217



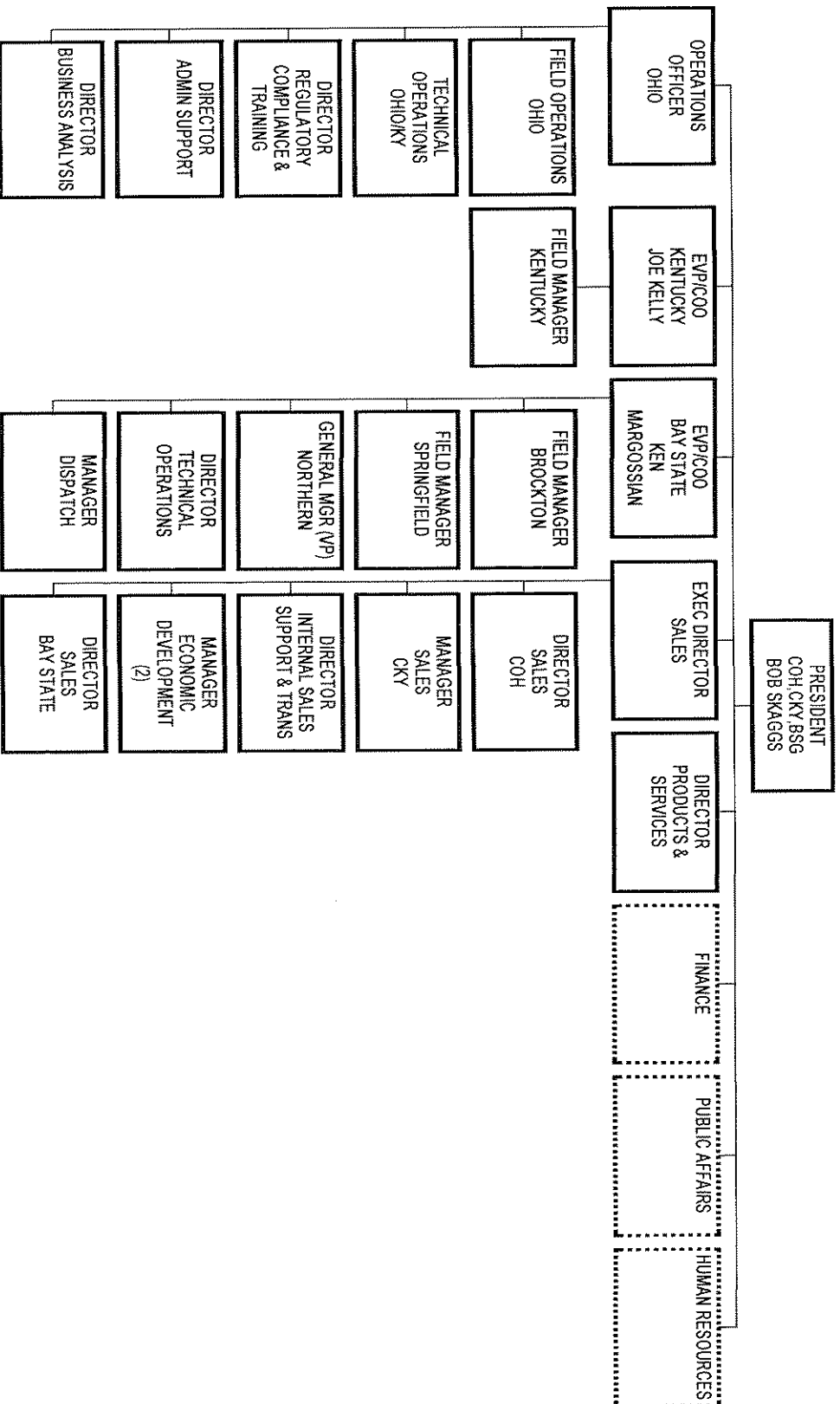
Note # 1: Beginning in 2002, Field Managers in NIFL and Kokomo will be eliminated and Supervisors will be integrated into Angola, Fort Wayne, and Peru LOAs.

# Energy Distribution - Gas Operations

## Organization Structure

COH, CKY, BSG REGION

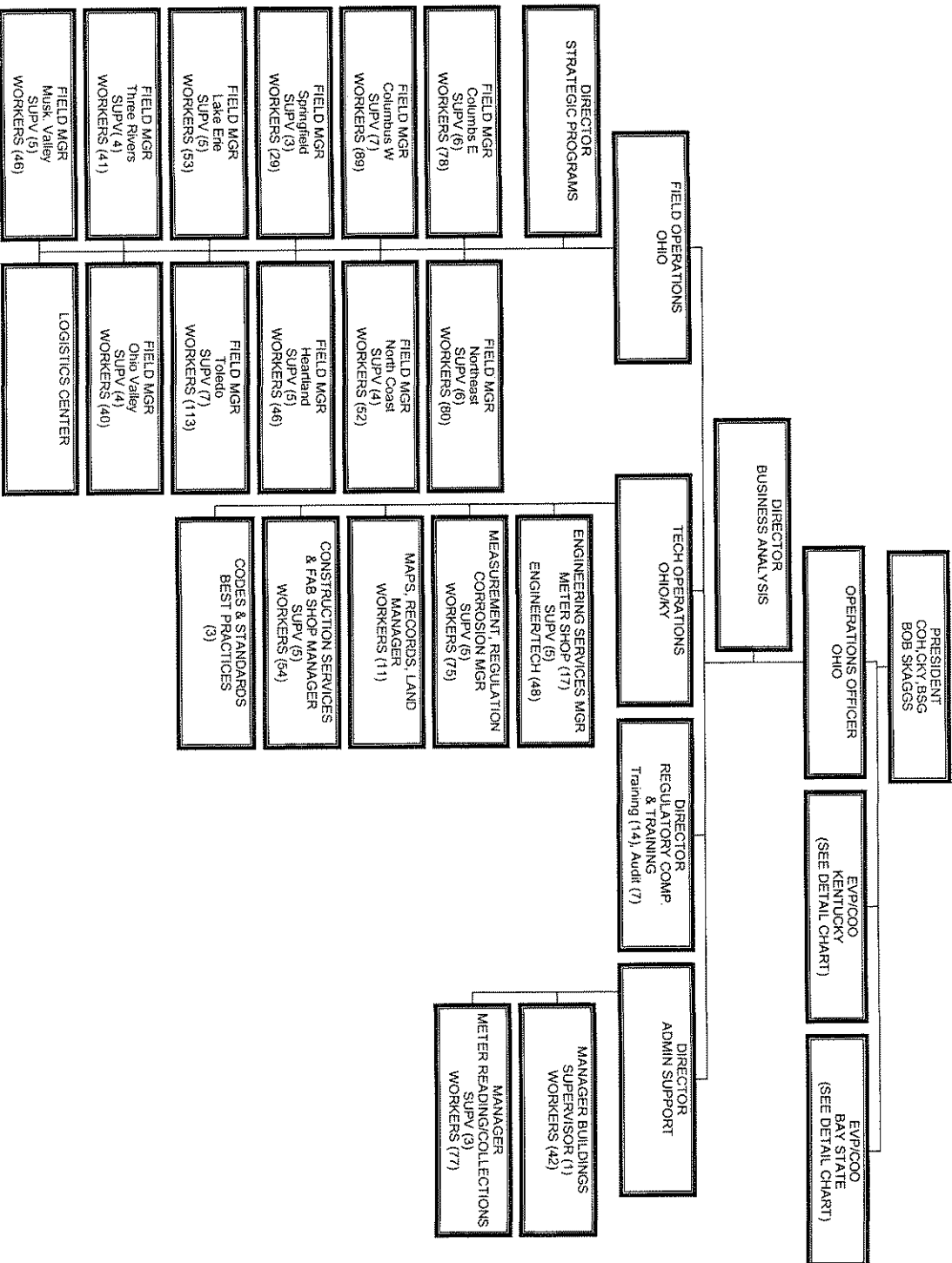
Bay State Gas Company  
D.T.E. 05-27  
Att. UWUA-1-2(A) Part 1  
Page 5 of 217



# Energy Distribution - Gas Operations

# Organization Structure

## COH,CKY,BSG REGION OPERATIONS

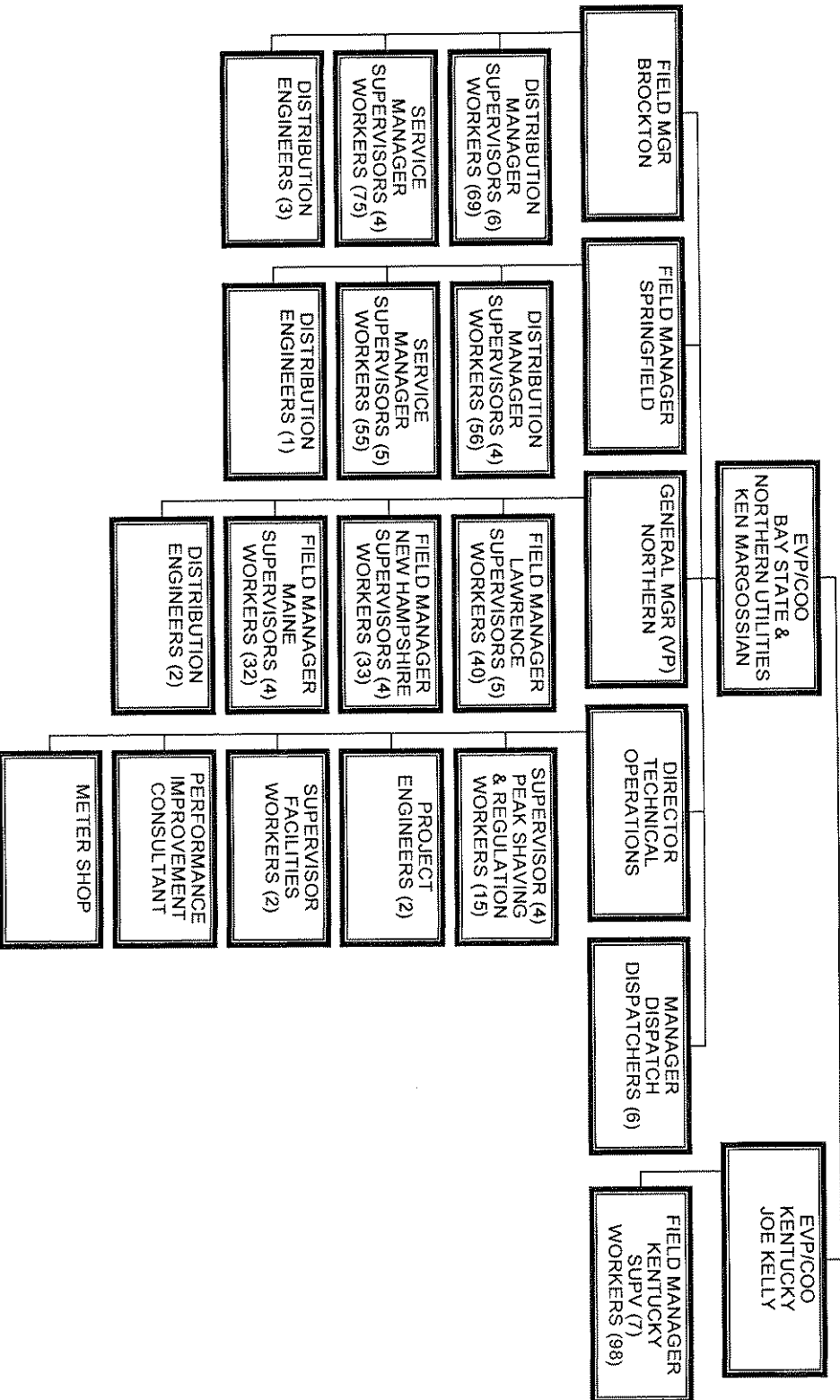


# Energy Distribution - Gas Operations

## Organization Structure

Bay State Gas Company  
D.T.E. 05-27  
Att. UWUA-1-2(A) Part 1  
Page 7 of 217

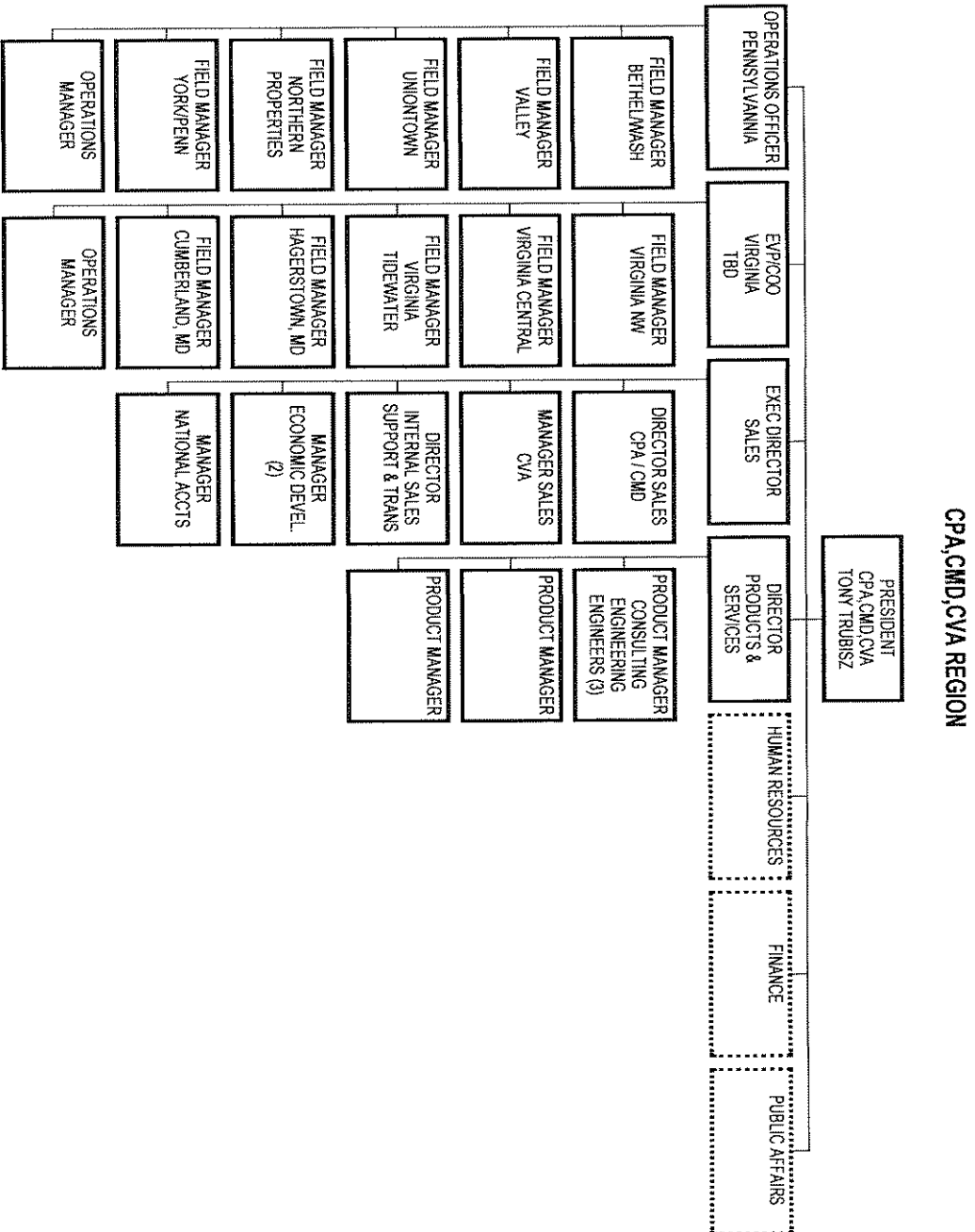
### BAY STATE/NORTHERN UTILITIES COLUMBIA OF KENTUCKY OPERATIONS DETAIL



# Energy Distribution - Gas Operations

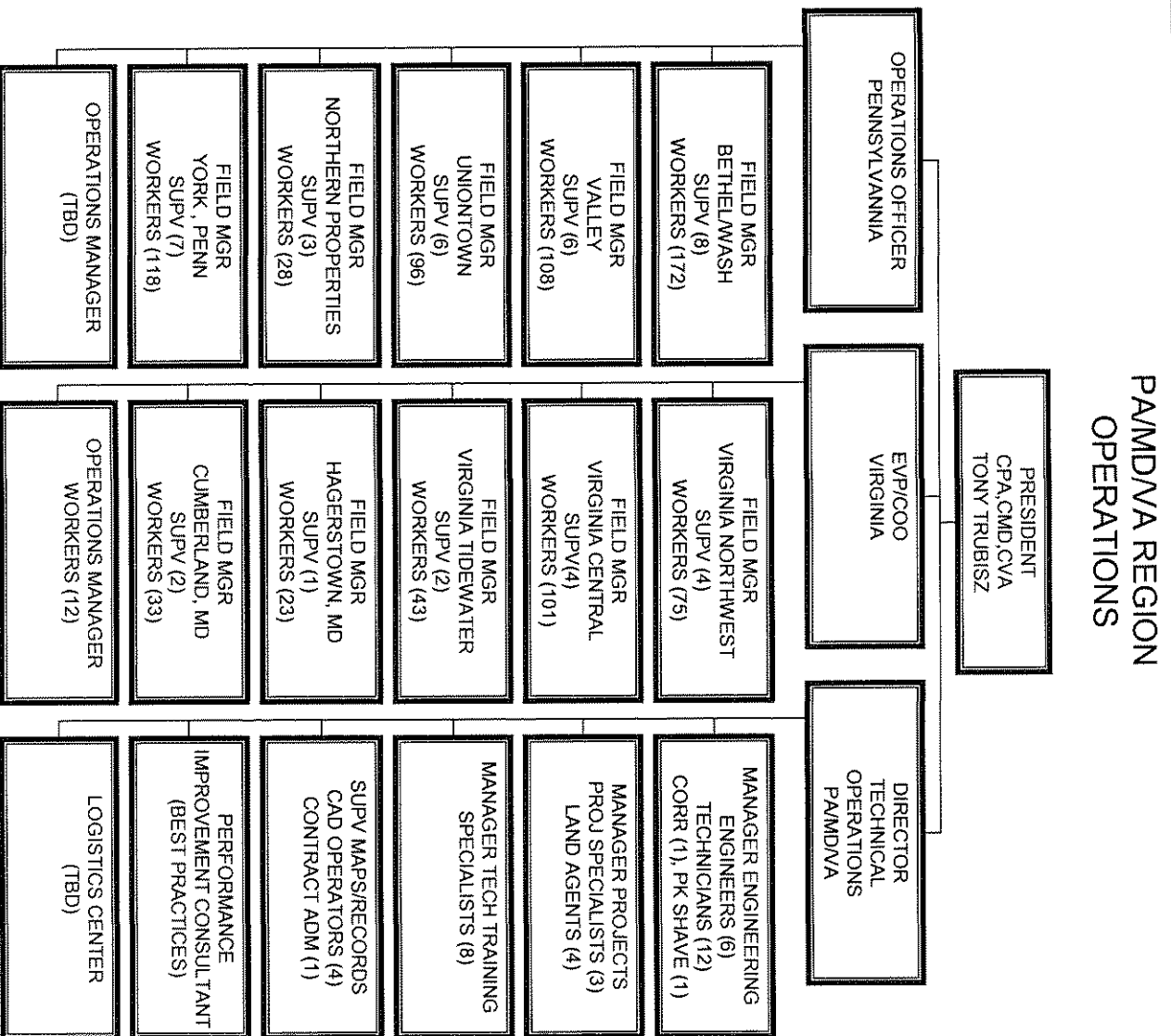
## Organization Structure

Bay State Gas Company  
D.T.E. 05-27  
Att. UWUA-1-2(A) Part 1  
Page 8 of 217



# Energy Distribution - Gas Operations

## Organization Structure



# Energy Distribution - Gas Operations

## Financial Bottom Line - 2001 EBITDA

## 2001 EBITDA

- |  |   |
|--|---|
| <ul style="list-style-type: none"> <li>Phase I O&amp;M - \$17M</li> <li>2000 - 200X</li> <li>Phase I Headcount Reductions - 350</li> </ul> | <ul style="list-style-type: none"> <li>Phase II O&amp;M - \$15.6M</li> <li>Phase II Headcount Reductions - 150-435</li> </ul> |
|--|---|

### Critical Project Issues/Follow-Up Areas

- Ability to achieve total savings will be subject to:
  - ✓ negotiation with bargaining units and willingness to take risks
  - ✓ preserving flat organization
  - ✓ limiting “duplication” of staff support
- VLRP program being defined - further analysis required to assess our options and impacts
- Confirm P&L responsibilities - firm up roles of president and COO
- Other areas require additional clarification
  - ✓ Gas Control (Merchant vs. Distribution)
  - ✓ Electric Systems Dispatch
  - ✓ Hydro plant management

# Energy Distribution - Gas Operations Opportunity Financial Summary

Opportunity	2001 EBITDA Impact (000)*			
	Non-Union	Union	Non-Labor	TOTAL
Consolidate LDCs	8,011	0	0	8,011
Repair/Replace Pipe	0	0	1,320	1,320
Consolidate Gas Meter Operations	0	0	0	0
Outsource Locates	0	0	0	0
Outsource Leak Survey	0	0	0	0
Outsource Cathodic Protection	0	0	0	0
Outsource Meter Reading	0	0	0	0
Non-Utility Work	216	91	1,109	1,416
Service Order - Soft Close	0	444	0	444
Meter Loops	0	0	0	0
Locate Screening	0	0	1,875	1,875
Consolidate Dispatch	0	0	0	0
New Business Process	32	0	0	32
Dispose of Buildings	0	0	1,022	1,022
Divest Assets- Blackhawk & BSG Stor	0	34	0	34
Mapping/Records (NIPSCO Initiative)	0	0	0	0
Mapping/Records (Other LDCs)	0	0	440	440
Shared Touch Points with Transmissio	700	300	0	1,000
<b>TOTAL</b>	<b>8,959</b>	<b>870</b>	<b>5,767</b>	<b>15,595</b>

**TOTAL Confident 2001 Savings** **15,595** \* excludes one-time costs to achieve  
**Treat Non-Union Craft Differently** **6,110** \* does not include Distribution portion of shared touch  
**Layoff Union due to Eliminated Work** **1,298** points  
**VRP/VSP Union for Outsourcing Op** **3,450**  
**Total** **26,452** Phase I Total Run Rate - \$28M



# Energy Distribution - Gas Operations

## FTE Reduction Summary

Bay State Gas Company  
D.T.E. 05-27  
UWUA-1-2(A) Part 1  
Page 12 of 21

	2000		2001		2002+		TOTAL	
	Non-Union	Union	Non-Union	Union	Non-Union	Union	Non-Union	Union
LDC Consolidation	100	0	0	0	2	0	102	0
Repair/Replace Best Practice	0	0	0	0	0	0	0	0
Consolidate Meter Shop Operations	11	0	1	0	0	1	12	1
Outsource Facility Locates	0	0	34	0	0	28	34	28
Outsource Leak Survey	0	0	0	0	0	0	0	0
Outsource Cathodic Protection	0	0	3	0	0	8	3	8
Outsourcing - Meter Reading	12	0	23	0	0	55	35	55
Non-Utility Work	0	0	59	25	0	0	59	25
Service Order Soft Close	0	4	0	6	0	6	0	16
Meter Loops	0	0	0	0	0	0	0	0
Locate Screening	0	0	0	0	0	0	0	0
Consolidate Dispatch	0	0	0	0	12	6	12	6
Modifications to COH new business process	5	5	1	1	5	0	11	6
Close Buildings	0	0	0	0	0	0	0	0
Divest Blackhawk Storage and BSG Propane Plan	0	0	0	0	0	2	0	2
Records Automation - NIPSCO Initiative	0	0	0	7	0	13	0	20
Records Automation - Other LDCs	0	0	0	0	0	0	0	0
<b>TOTALS</b>	<b>128</b>	<b>9</b>	<b>121</b>	<b>39</b>	<b>19</b>	<b>119</b>	<b>268</b>	<b>167</b>

# Opportunity Implementation Timeline

Bay State Gas Co D.T.E Att: UWUA-1-2(A) Page 13		2000		2001				2002				2003				2004			
Opportunity/Major Activity		Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<ul style="list-style-type: none"><li>• LDC Consolidation</li><li>• Consolidate Meter Shop Operations</li><li>• Non Utility Service</li><li>• Repair/Replace Best Practice</li><li>• Outsource Cathodic Protection, Leakage, Survey Locates *</li><li>• Outsource Meter Reading *</li><li>• Service Order Soft Close</li><li>• Meter Loops</li><li>• Locate Screening</li><li>• Consolidate Dispatch</li><li>• Modifications to COH New Business Process</li><li>• Close &amp; Dispose of Buildings</li><li>• Divest Blackhawk and Bay State Propane Plants, etc.</li><li>• Records Automation</li><li>• Shared Touch Points w/Trans</li></ul>																			

\*time frame accommodates reductions through normal attrition - other options may be available (VIRP, etc.) 13

*Draft - For Discussion Purposes Only*



**A** Andersen  
Consulting

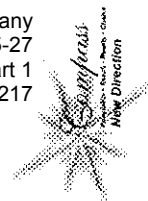
## Phase 2 Conceptual Design - Example

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*Team Name*

*Date*

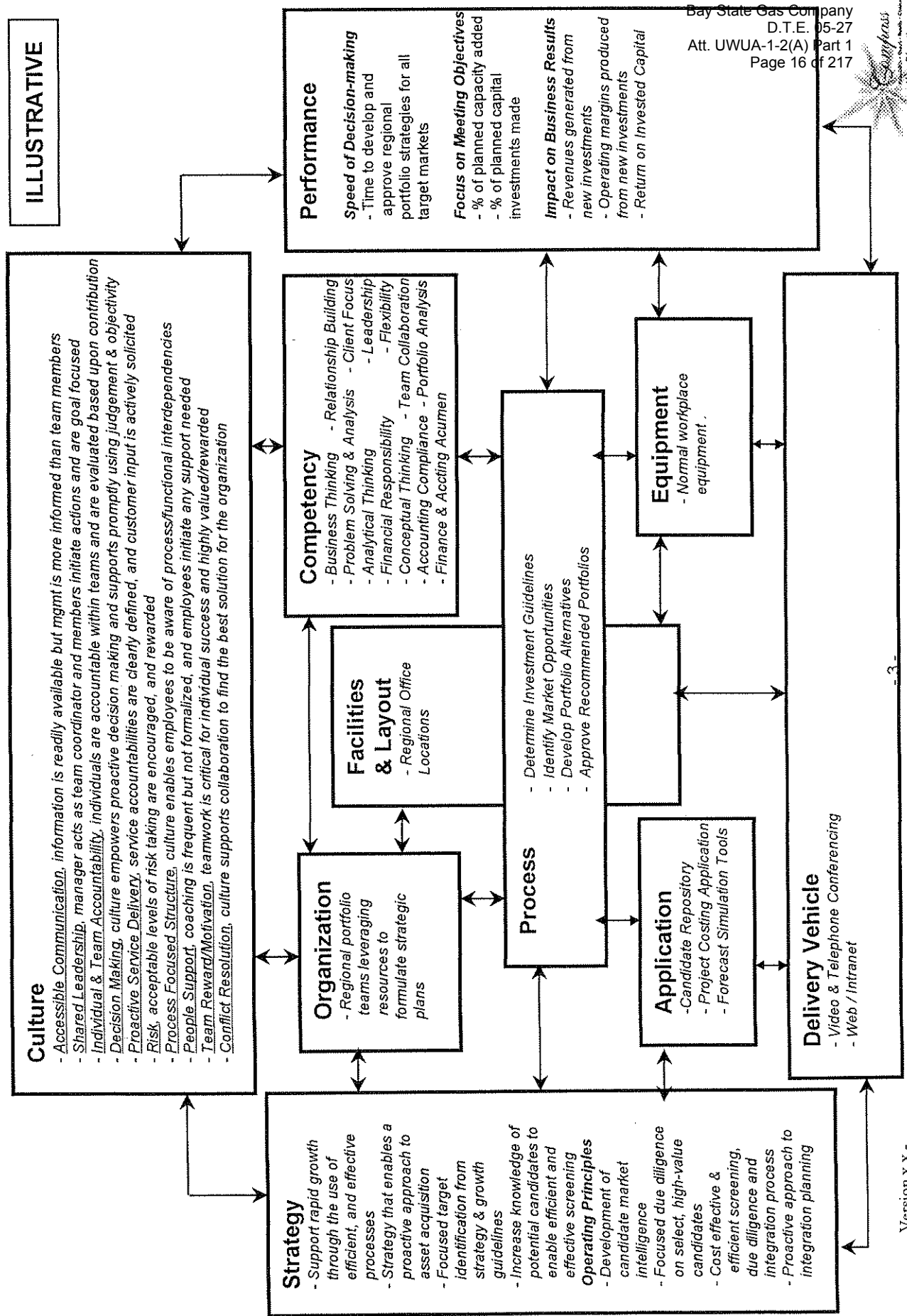
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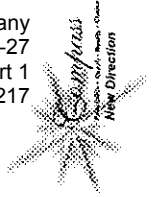
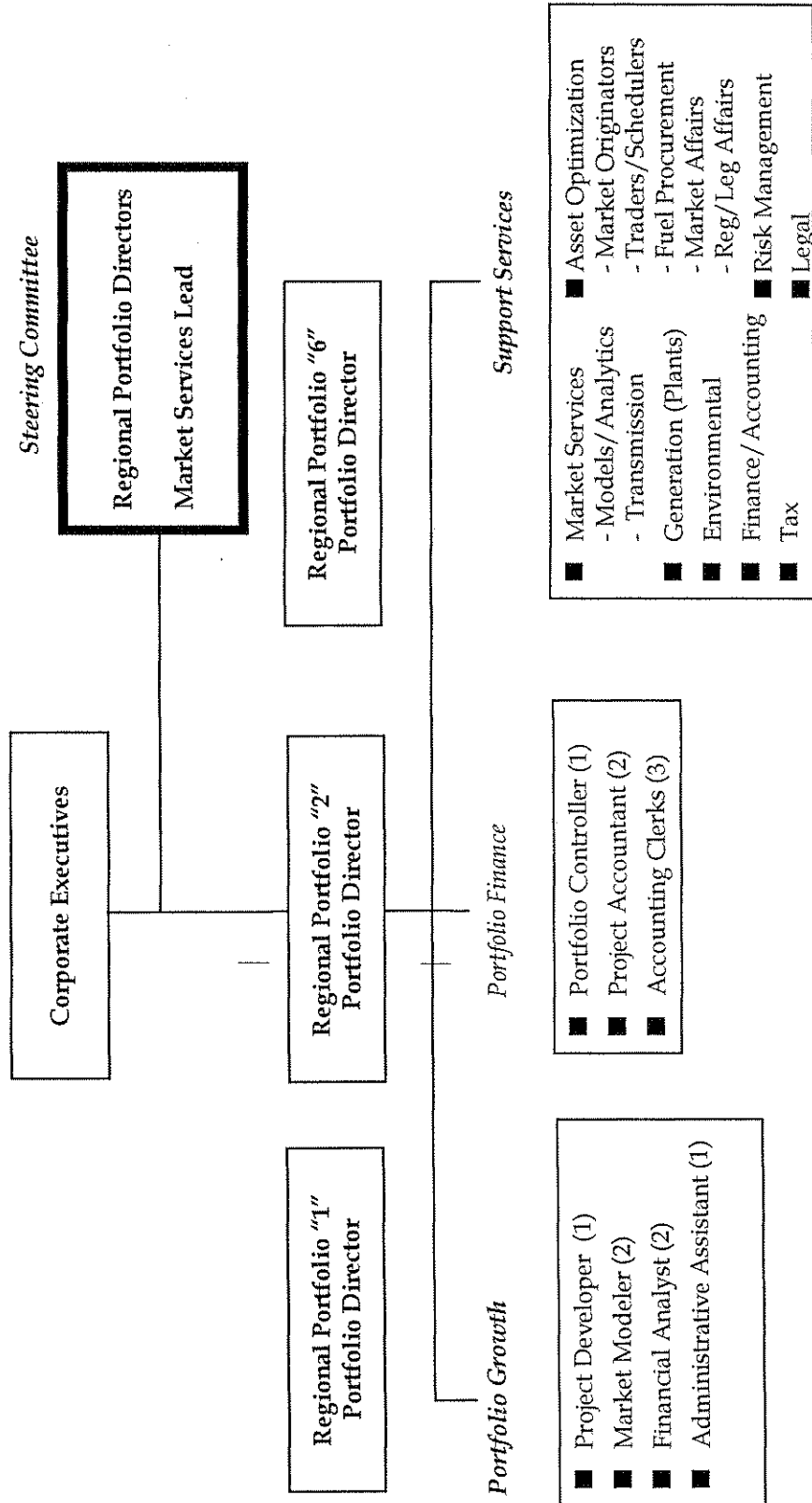
## Conceptual Design Template

- Capability Blueprint
- Organization Chart
- Culture Gap Evaluation
- Application Gap Closure Approach



# Proposed Organizational Structure and Sizing

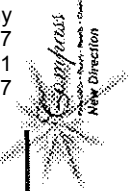
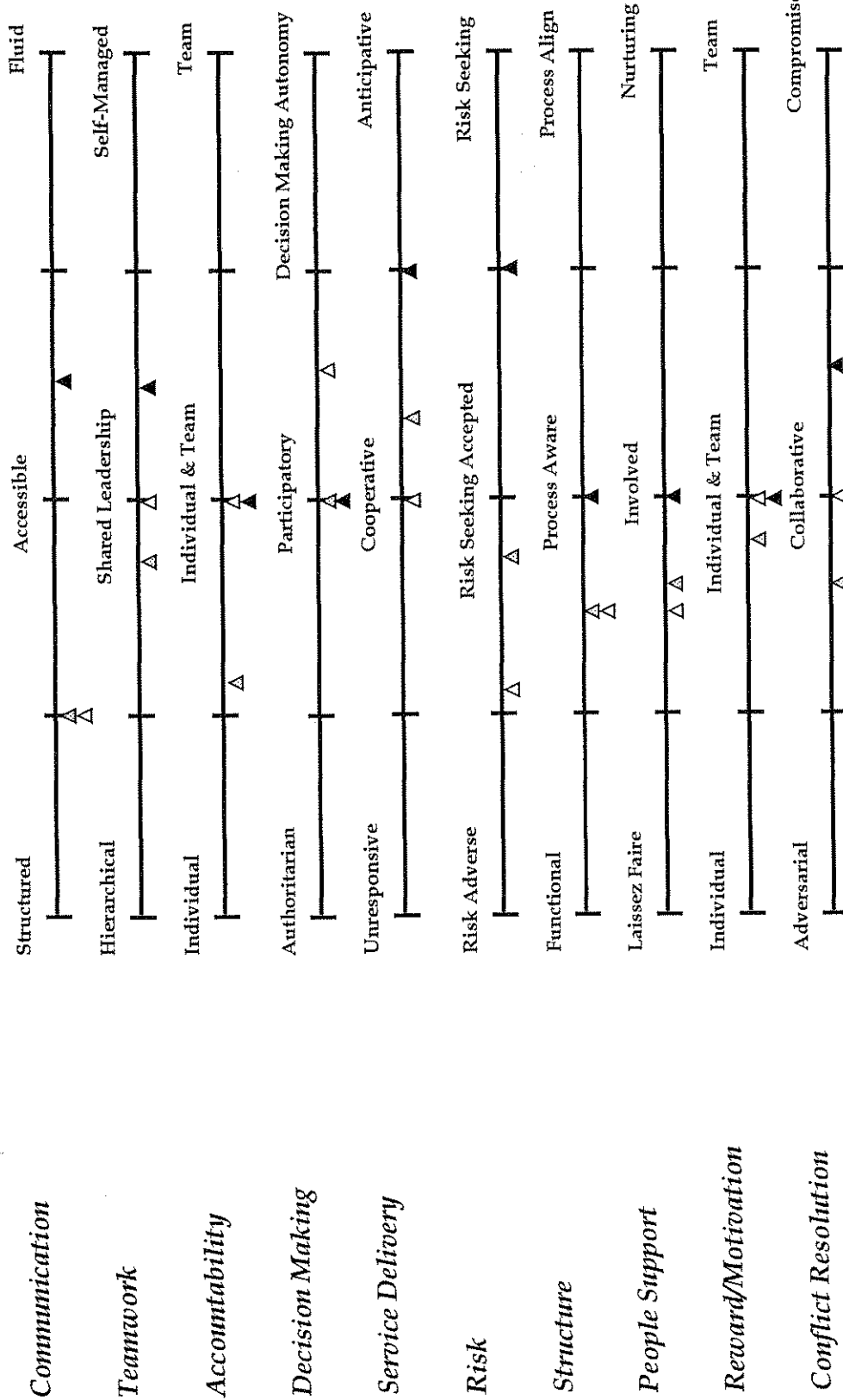
ILLUSTRATIVE

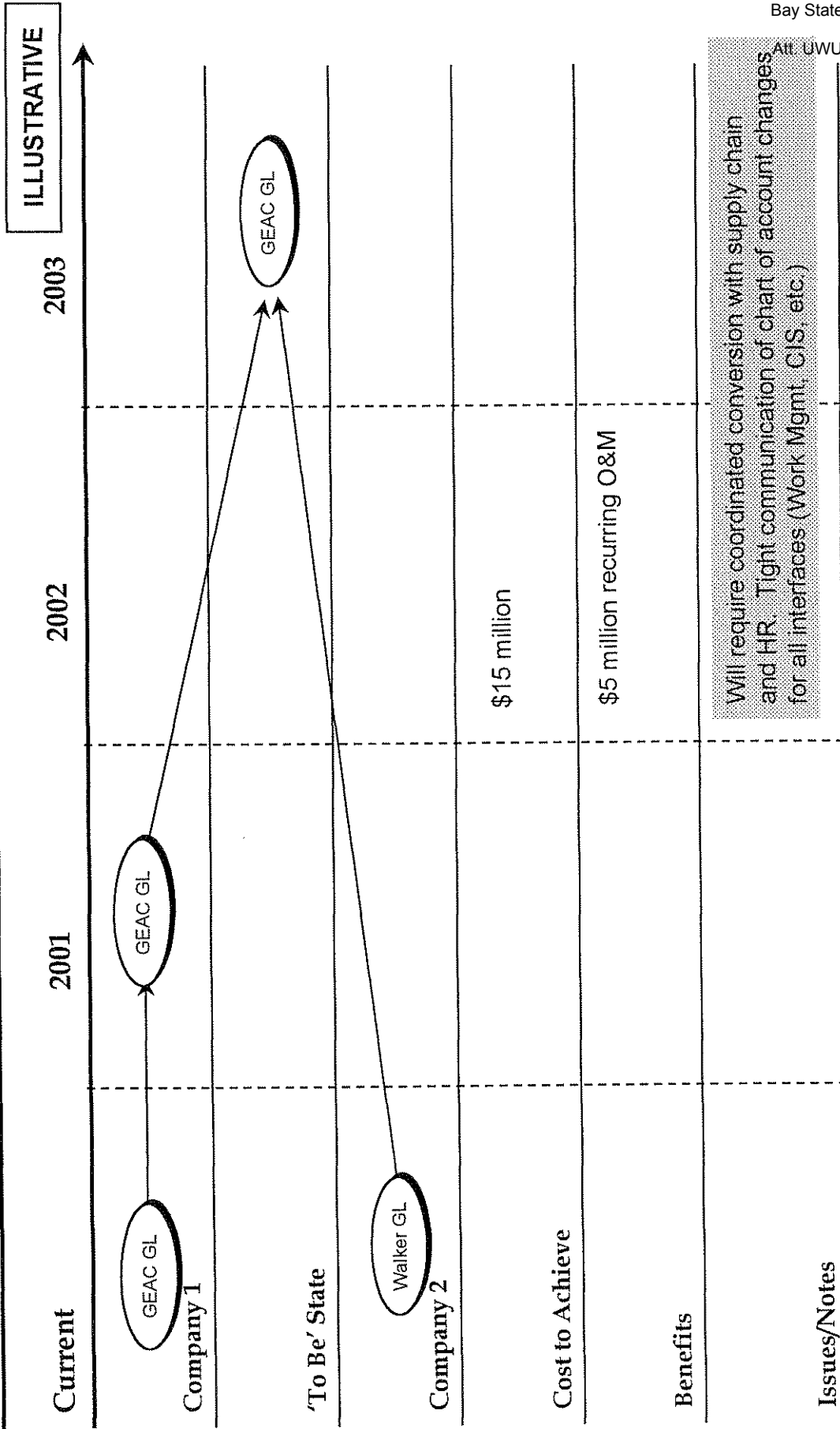


## Cultural Characteristics

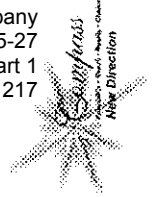
▲ Current Company A  
 ▲ Current Company B  
 ▲ "To-Be" State

ILLUSTRATIVE

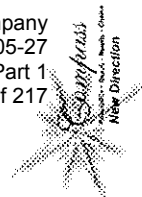




ILLUSTRATIVE







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## Appendix

■ Flowcharts

■ Culture Descriptions

Create a process flow for each of the major processes... Repeat this page for each of the major processes

ILLUSTRATIVE



Manage Cash Flow

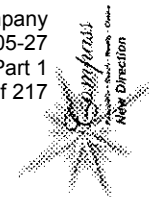
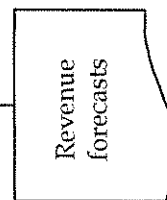
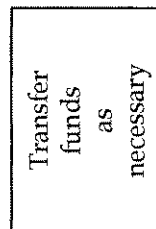
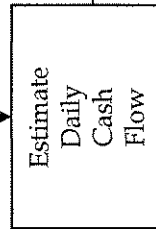
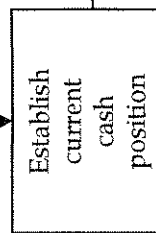
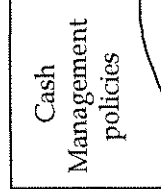
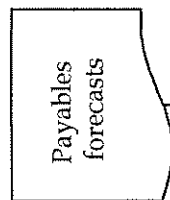
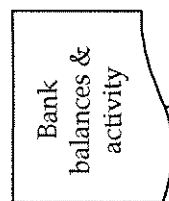
Organization

Bank  
(External Entity)

Accounts  
Payable

Treasury

Accounts  
Receivable



## Communication/Information Sharing

### Structured

- Formal feedback and lines of communication flow
- Information shared on need-to-know basis only
- Top-down communication
- Time lag in information sharing

### Accessible

- Periodic communications across the organization
- Readily available information, sometimes requires probing
- Management is more informed than team members

### Fluid

- Encouragement of total information sharing
- Quality of information good
- Informal, unstructured feedback & communication flow
- Multiple communication channels
- Few, if any, communications standards

### Team Work

#### Hierarchical

- Manager as supervisor, directs individual work
- Team members do what they are told
- Teams have to obtain permission from the manager to make a decision
- There is no teamwork between departments
- Individual decisions are not trusted

#### Manager Centered

- Manager as a group leader
- Team members work together
- Team decisions may be altered or influenced by the manager

#### Shared Leadership

- Manager as team coordinator
- Team members initiate actions and are goal focused
- Daily work is not obstructed by the lack of cooperation from other departments

#### Self-Directed

- Manager as coach
- Team members run day-to-day operations
- Decisions can be made without asking permission from the manager

#### Self-Managed

- Manager as resource focusing on future and development
- Team accountable for own work
- Department structures are broken down into processes
- Individual decisions are trusted

## Culture Characteristics

### Team Area

#### Accountability

##### Individual and Team

##### Individual

- Each individual is responsible for their own tasks
- Competition among employees tends to be high
- Teams are utilized very sparingly

##### Team Only

- Teams are accountable for all actions/decisions
- Competition among employees tends to be low
- Individuals are accountable within the team
- Incentives for team contribution only

#### Decision Making

##### Authoritarian

- All decisions are made at the "top"
- Many levels of approval are necessary (decisions are not always timely)
- Supports a layered organization
- Work activities and roles are tightly structured, monitored and controlled

##### Participatory

- Decisions are reached with input from those affected
- Buy-in is considered important
- Consistency of decisions is monitored by management

##### Complete Decision Making Autonomy

- Work teams have complete autonomy in decision making
- Supports a very flat organization
- Employees work independently without close supervision
- Low levels of coordination
- Decisions are timely

# Culture Characteristics

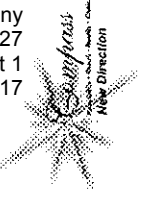
## Team Area

### Service Delivery

Unresponsive	Reactive	Cooperative	Proactive	Anticipative
<ul style="list-style-type: none"> <li>Limited or no understanding of customer values, needs, and expectations</li> <li>Service level is clearly secondary to cost considerations</li> <li>Internally focused (vs. customer focused)</li> </ul>	<ul style="list-style-type: none"> <li>Service levels are defined, but quality varies in practice</li> <li>Customer input is sought only when needed (e.g., react to a problem)</li> </ul>	<ul style="list-style-type: none"> <li>Service levels defined and measured</li> <li>Customer input is solicited periodically to determine service expectations and process improvement needs</li> </ul>	<ul style="list-style-type: none"> <li>Business Units are aligned with the business strategy</li> <li>Service accountabilities are clearly defined</li> <li>Customer input is actively solicited</li> </ul>	<ul style="list-style-type: none"> <li>Programs for continuous improvement of service levels are in use</li> <li>Value/service expectations are anticipated</li> <li>Customers set service standards</li> </ul>

### Risk

Risk Adverse	Risk Taking Discouraged	Risk Taking Accepted	Risk Taking Encouraged	Risk Seeking
<ul style="list-style-type: none"> <li>Risk is avoided at all costs</li> <li>Risk taking is punished</li> </ul>	<ul style="list-style-type: none"> <li>Risk is avoided whenever possible</li> <li>"Safe" actions are rewarded</li> </ul>	<ul style="list-style-type: none"> <li>Indifferent view of risk taking</li> <li>Risks are taken when viewed critical to success</li> <li>Risk taking is not officially rewarded</li> </ul>	<ul style="list-style-type: none"> <li>Risk is viewed as necessary for success and continuous improvement</li> <li>Risk taking is supported by reward system</li> </ul>	<ul style="list-style-type: none"> <li>Risks are sought out</li> <li>Risk taking is highly rewarded</li> </ul>





**Structure**

Functionally Aligned	Functionally Oriented	Process Aware	Process Focused	Process Aligned
<ul style="list-style-type: none"> <li>Business processes are not well-defined</li> <li>Business practices and organization structure supports the business without regard to process efficiency or effectiveness</li> </ul>	<ul style="list-style-type: none"> <li>Baseline business processes defined</li> <li>Formal methods for process analysis/improvement not adopted</li> </ul>	<ul style="list-style-type: none"> <li>Awareness of process/functional interdependencies</li> <li>Key processes are mapped and linked to business capabilities</li> </ul>	<ul style="list-style-type: none"> <li>Understanding of functional and cross-functional business needs</li> <li>Organization is focused on process alignment</li> <li>Process improvement programs are undertaken</li> </ul>	<ul style="list-style-type: none"> <li>Organization resources are aligned by processes, not by function</li> <li>Performance measures reflect the performance processes applied across the organization</li> </ul>

**People Support****Laissez Faire**

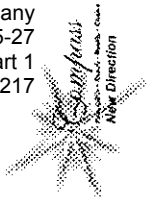
- Employees are encouraged to plan and develop their career's on their own
- Management concentrates on operations and not on relationship building and employee career planning

**Involved**

- Coaching is somewhat frequent but not formalized
- Employees are usually the initiators of any support needed

**Nurturing**

- Formalized mentoring and coaching program
- Management rewards are tied to support activities
- Management usually takes initiative to provide support



**Reward/Motivation****Individual Basis Only**

- Reward systems based on individual contribution only
- Teamwork is not highly valued or encouraged
- Interpersonal skills and knowledge sharing are relatively unimportant
- Individual contributors are the most important

**Mostly Individual**

- Performance measures reflect individual performance
- Successful teamwork is sometimes recognized formally

**Individual and Team**

- Team success is just as likely to be rewarded as individual success
- May have different classes of rewards for individuals versus teams

**Mostly Team**

- Rewarding individual accomplishment is conducted within the context of team outcomes
- Teamwork is highly valued and rewarded
- Teaming skills are critical for individual success

**Team Only**

- Teamwork is the basis for the reward system
- Interpersonal skills and knowledge sharing are paramount
- Individuals are not directly accountable for their actions, only the actions of the team

**Conflict Resolution****Adversarial**

- Positional approach to conflict resolution, with the parties taking a stance and unwilling to budge
- Resolution driven by power
- Usually creates a win/lose situation

**Collaborative**

- Conflict is resolved by fully exploring solutions to find the optimal one for the situation
- Requires strong negotiation skills and respect for individual viewpoints within the organization

**Conflict Resolution****Compromise**

- Conflict is always resolved through compromise
- Supports conflict avoidance
- Is likely to create a lose/lose situation



As of:  
Updated by:

Team:  
Sub Team:  
Opportunity Name:  
Application Name:

IT Application Requirements by Business Function/ Processes						Requirement Reason (Place a "Y" if applicable)				
Business Area	Processes	Business Process Complexity (Low, Med, High)	Business Process Change (Low, Med, High)	Metrics	New Requirements	Regulatory Requirements	Business Critical/Multi-Company	Interfaces	Scalability/IT Infrastructure	Data Conversion
1. Function 1	1. Process 1									
	2. Process 2									
	3. Process 3									
	4. Process 4									
	5. Process 5									
	6. Process 6									
	7. Process 7									
	8. Process 8									
	9. Process 9									
	10. Process 10									
	11. Process 11									
2. Function 2	1. Process 1									
	2. Process 2									
	3. Process 3									
	4. Process 4									
	5. Process 5									
	6. Process 6									
	7. Process 7									
	8. Process 8									
	9. Process 9									
	10. Process 10									
	11. Process 11									
3. Function 3	1. Process 1									
	2. Process 2									
	3. Process 3									
	4. Process 4									
	5. Process 5									
	6. Process 6									
	7. Process 7									
	8. Process 8									
	9. Process 9									
	10. Process 10									
	11. Process 11									
4. Function 4	1. Process 1									
	2. Process 2									
	3. Process 3									
	4. Process 4									
	5. Process 5									
	6. Process 6									
	7. Process 7									
	8. Process 8									
	9. Process 9									
	10. Process 10									
	11. Process 11									

As of:  
Updated by:

Team:  
Sub Team:  
Opportunity Name:  
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IT Application Requirements by Business Function / Processes						Requirement Reason (Place a "Y" if applicable)					
Business Area	Processes	Business Process Complexity (Low, Med, High)	Business Process Change (Low, Med, High)	Metrics	New Requirements	Regulatory Requirements	Merger Requirements	Business Critical / Multi-Company	Interfaces	Scalability / IT Infrastructure	Data Conversion
5. Function 5	4. Process 4										
	5. Process 5										
	6. Process 6										
	7. Process 7										
	8. Process 8										
	9. Process 9										
	10. Process 10										
	11. Process 11										
	1. Process 1										
	2. Process 2										
	3. Process 3										
4. Process 4											
5. Process 5											
6. Process 6											
7. Process 7											
8. Process 8											
9. Process 9											
10. Process 10											
11. Process 11											

# **Project Compass**

## **Phase 1: Identification of Potential Opportunities Discussion Package**

**June 29, 2000**

# ***Presentation Outline***

**Introduction**

**Objectives**

**Phase 2: Conceptual Design Overview**

**Team Reports:  
Potential Opportunities Overview**

**Baseline Targets**

**Key Issues**

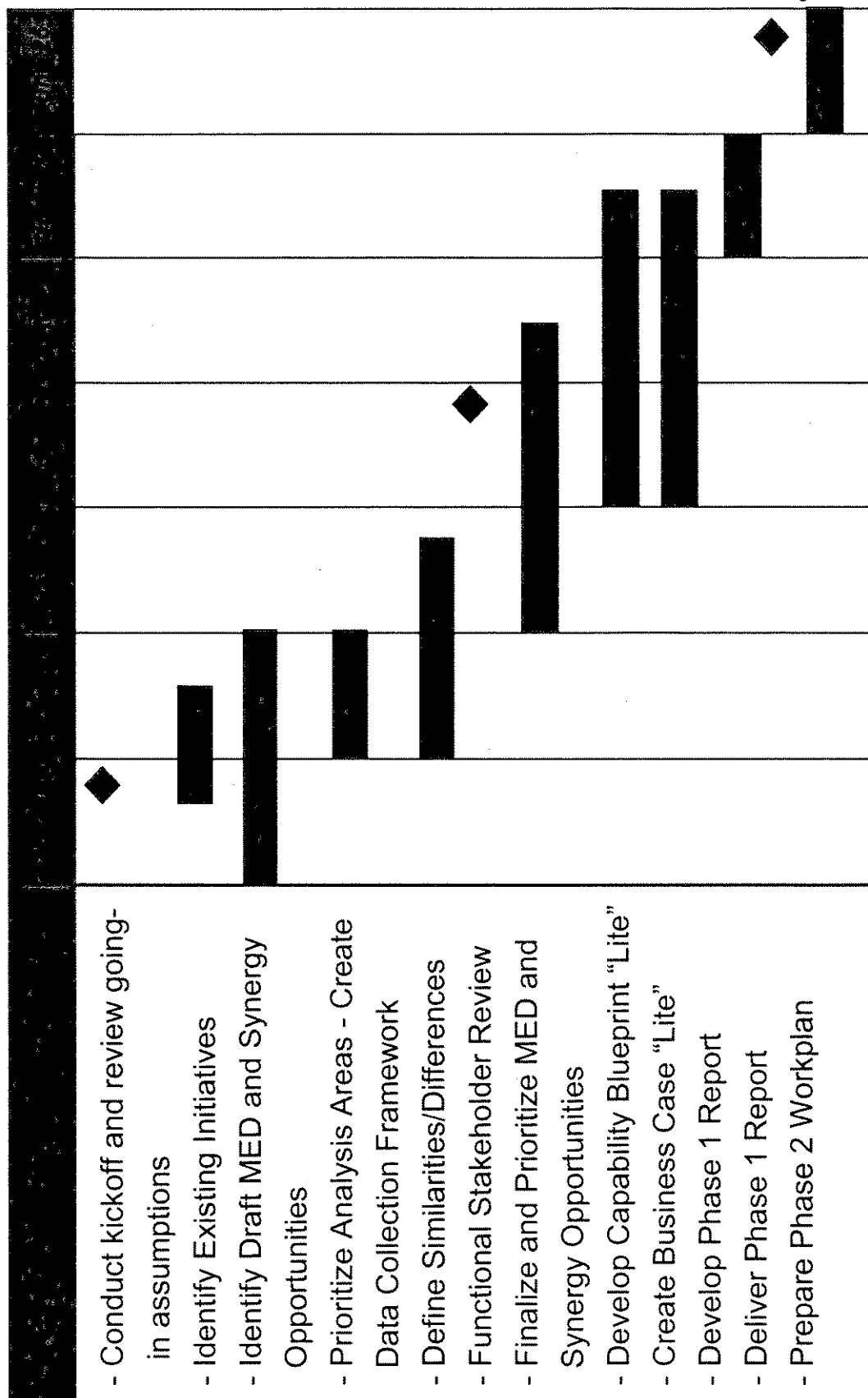
# ***Meeting Objectives***

## **Objectives of today's meeting:**

- Review key steps and set stage for presentations.
- Provide an overview of the team's potential opportunities, timing, savings, and costs to achieve.
- Review each team's potential opportunities to pursue in Phase II.
- Solicit input on potential opportunities.
- Discuss Baseline Savings Targets.
- Discuss Master Schedule.
- Outline objectives and next steps for Phase II: Conceptual Design

# Phase I: Opportunity Identification Overview

May 2000 - June 2000

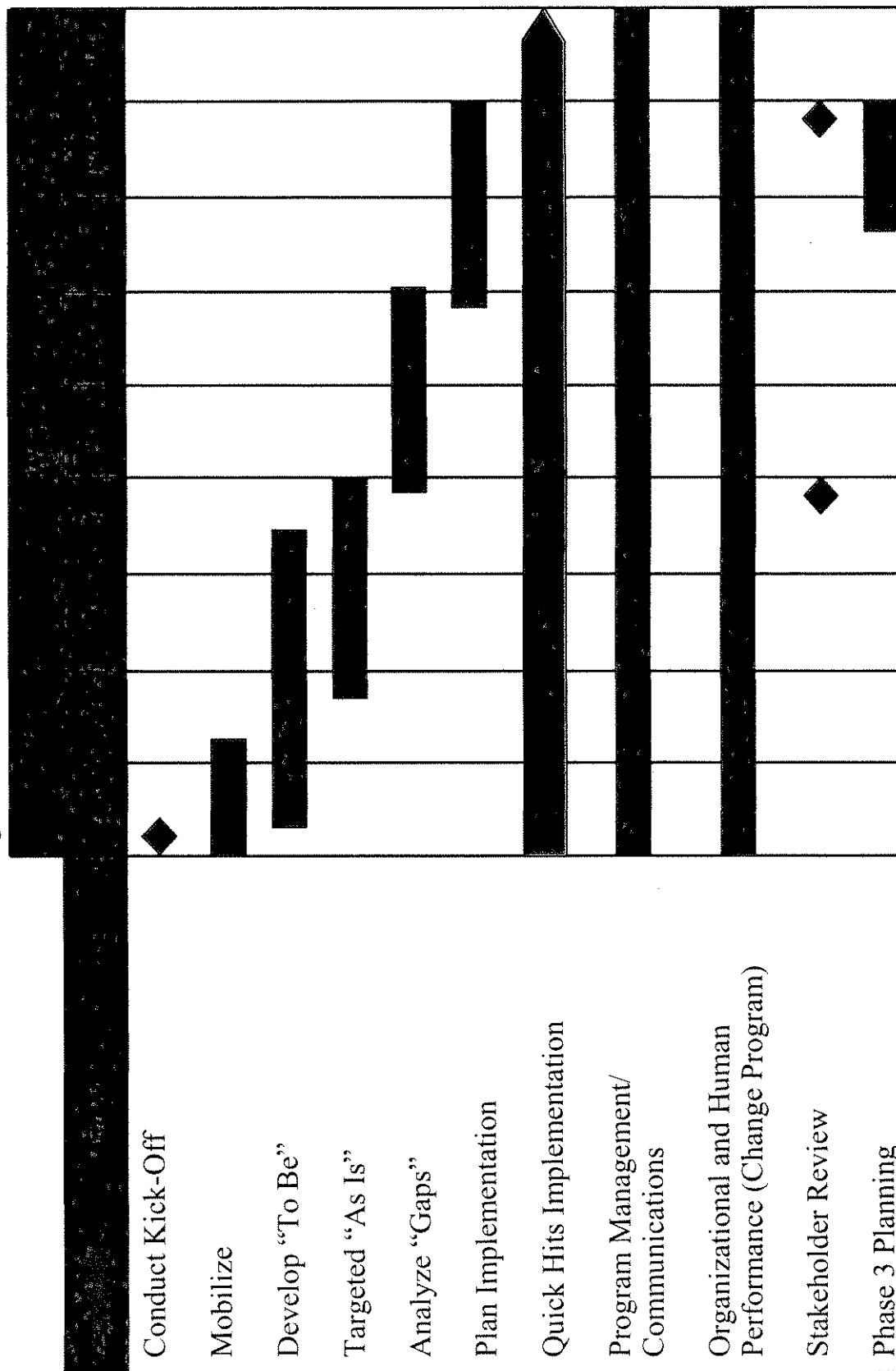


# Project Compass Tasks Overview

<ul style="list-style-type: none"> <li>■ Establish program management</li> <li>■ Baseline financials</li> <li>■ Labor and O&amp;M target savings</li> <li>■ "Sacred cows"</li> <li>■ Executive expectations/success factors/navigating the organization</li> <li>■ Business case framework</li> <li>■ Scope and boundaries</li> <li>■ Team leads (backfill as needed)</li> <li>■ Business Unit contacts</li> <li>■ Define logistics</li> <li>■ Location by team</li> <li>■ Workspace set-up</li> <li>■ Time reporting, travel and relocation policies</li> <li>■ Weekly status meeting schedule</li> <li>■ Monthly executive review meeting schedule</li> <li>■ Support contacts (facilities, IT, etc.)</li> <li>■ Clerical support needs/ procedures</li> <li>■ Begin administration</li> <li>■ NiSource and Columbia phone lists/contact information</li> <li>■ Merger integration team contact list</li> <li>■ Preliminary issues log and resolution process</li> <li>■ Kick-off document draft</li> <li>■ Begin communications</li> <li>■ Memo announcing effort to officers</li> <li>■ Memo to all affected personnel announcing effort and emphasizing priority</li> <li>■ Internal/external communication needs</li> <li>■ Communication plan/procedures</li> </ul>	<ul style="list-style-type: none"> <li>■ Conduct kickoff</li> <li>■ Confirm business strategy and goals</li> <li>■ Create and/or collect information</li> <li>■ Identify Merger Effective Date items</li> <li>■ Address IT infrastructure issues</li> <li>■ Perform high-level As-Is comparison across companies</li> <li>■ Identify opportunity list/groups</li> <li>■ Categorize opportunities into cost reduction, reengineering and revenue enhancement</li> <li>■ Prioritize list of opportunities</li> <li>■ Develop business case "lite"</li> <li>■ Develop initial Conceptual Design project plan</li> <li>■ Develop Phase 1 report</li> <li>■ Conduct Steering Committee checkpoint</li> </ul>	<ul style="list-style-type: none"> <li>■ Prepare/conduct phase kickoff</li> <li>■ Review team structure; redeploy based on opportunities</li> <li>■ Develop high-level As-Is for identified opportunities</li> <li>■ Develop initial To-Be model for identified opportunities using Business Integration Methodology</li> <li>■ Identify gaps between As-Is and To-Be</li> <li>■ Begin implementation of quick hits and MEDs</li> <li>■ Assign targets to functional sponsors</li> <li>■ Understand IT system impacts and dependencies</li> <li>■ Expand/populate business case; analyze select options</li> <li>■ Develop initial change program</li> <li>■ Expand communication plan; craft and initiate internal messages</li> <li>■ Align with regulatory strategies</li> <li>■ Identify staff reduction impacts</li> <li>■ Overlay/Compare preliminary opportunities against strategy</li> <li>■ Develop implementation schedule for Detailed Design Phase</li> <li>■ Conduct Steering Committee checkpoint</li> </ul>	<ul style="list-style-type: none"> <li>■ Design new To-Be models using Business Integration Methodology</li> <li>■ Review designs and implications with process sponsors; identify additional quick hits</li> <li>■ Update I/T program management plans</li> <li>■ Identify staffing implications and timing</li> <li>■ Update change management program</li> <li>■ Review financial and nonfinancial impacts with Steering Committee</li> <li>■ Design and deliver ongoing internal communication messages</li> <li>■ Update business case(s)</li> <li>■ Develop implementation plans</li> <li>■ Create master schedule for implementation of cost reduction, reengineering and revenue opportunities</li> </ul>
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# Phase II: Conceptual Design Overview

July 2000 - September 2000





# Potential Opportunity Summary Template

<b>TOTAL:</b>	\$154,249-	\$211,939-	\$15,886-	\$22,502-	\$105,130-	\$(43,830)-	683-933	1205-1323	1888-2256
	\$168,722	\$238,210	\$24,960	\$36,856	\$119,450	\$18,822			

**Team Reports: Opportunity Identification Phase Recommendations**  
**Opportunity Summary**  
**Retail Customer Service/Sales & Marketing - Total**  
(\$000,000's)

Revenue Cycle	\$5.4 - 6.6	\$9.5 - 10.7	\$3	\$3	\$5.8 - 6.3	\$0	192	55	247
Customer Service	\$3.7 - 4.7	\$7.3 - 14.2	\$0	\$0	\$7.2 - 15.2	\$2.1 - 29.7	112 - 290	157 - 248	269 - 538
Sales & Marketing	\$10	\$12.7	\$3	\$3	\$2.3	\$3.8	2	59	61
<b><u>TOTAL:</u></b>	\$19.1 - 21.3	\$29.5 - 37.6	\$3.3	\$3.3	\$15.3 - 23.8	\$5.9 - 33.5	306 - 484	271 - 362	577 - 846

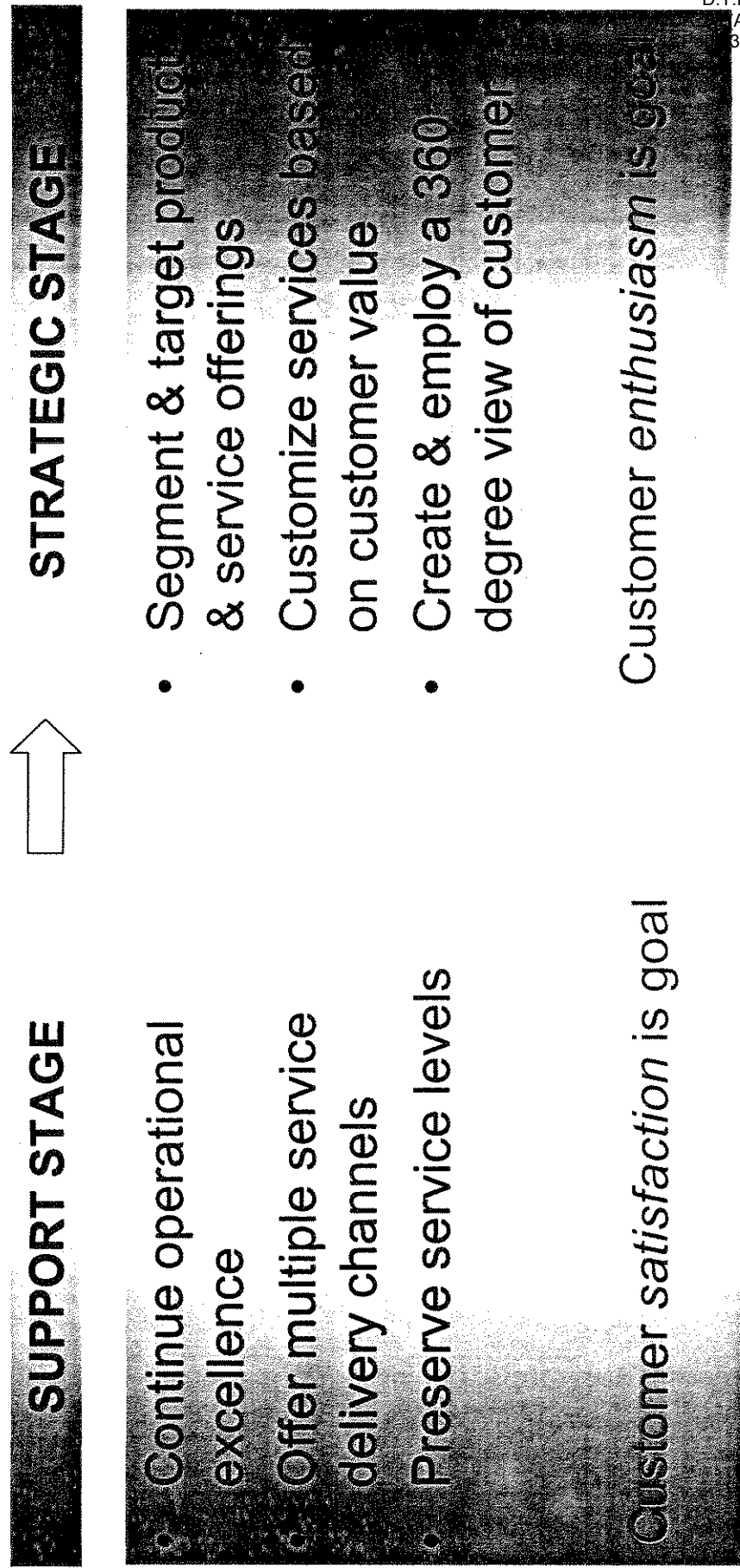
Bay State Gas Company  
D.T.E. 05-27  
JA-1-2(A) Part 1  
Page 37 of 217

Att. UW

Note: Total Severance, Training and Relocation = \$14.26 - 22.56m  
Total employees to the pool = 294 - 309

# Customer Service/Sales & Marketing

## Strategic View



# Team Reports: Opportunity Identification Phase Recommendations

## Opportunity Summary by Team

### Retail Customer Service/Sales & Marketing - Revenue Cycle

(\$000's)

Implement best practices to reduce net utility write-off	\$2,000	\$3,000			\$25				N/A
Realign NIPSCO meter reading	\$660	\$660			\$264			5	5
Outsource NIPSCO meter reading**	\$0 - 585	\$0 - 2,340			\$0 - 4,440		110**		110
Meter reading outsourcing at Columbia LDCs**	\$0 - 350	\$0 - 1,000			\$0 - 50		53**	41	94
Customers pay fee at remote pay stations	\$300 - 1,000	\$300 - 1,000			\$25				N/A
Consolidate bill printing/distribution	\$675 - 825	\$900 - 1,100			\$245		6***		6
Cancel purchase of bill inserting equipment at NIPSCO			\$300	\$300					N/A
Combine or outsource company remittance processing	\$300 - 700	\$565 - 880			\$240 - 660		10**	1	11
Consolidate to two billing exception processing sites	\$350	\$500			\$522		13****	8	21
Solicit Combined Collection Agency contract	\$150	\$250			\$25				N/A
<b>TOTAL:</b>	\$5,370 - 6,620	\$9,515 - 10,730	\$300	\$300	\$5,836 - 6,256*		192	55	227

\* Severance cost is \$5,656 to \$6,076 of total

\*\* NIPSCO and Columbia bargaining unit subject to security clauses, 110 in NIPSCO go to the pool

\*\*\* 4 of 6 subject to security clause

\*\*\*\* Bay State bargaining unit, no security clause

# Team Reports: Opportunity Identification Phase Recommendations

## Opportunity Summary

### Retail Customer Service/Sales & Marketing - Customer Service

(\$000,000's)

Call Center Consolidation	\$2.7 - 3.5	\$5.2 - 11.9	\$0	\$0	\$6.4 - 14.4*	\$1.6 - 29.2	79 - 244***	149 - 236	228 - 480
Walk - In Centers	\$1.0 - 1.2	\$2.1 - 2.3	\$0	\$0	\$ .8**	\$ .5	33 - 46****	8 - 12	41 - 58
<b><u>TOTAL:</u></b>	\$3.7 - 4.7	\$7.3 - 14.2	\$0	\$0	\$7.2 - 15.2	\$2.1 - 29.7	112 - 290	157 - 248	269 - 538

Note: Absent the NIPSCO security clause, an additional 30 FTEs in NIPSCO Walk-In Centers and 8 NIPSCO CIS Testers could be severed. Recurring annual savings of \$2.2m beginning in 2001 with a one-time severance of \$750k.

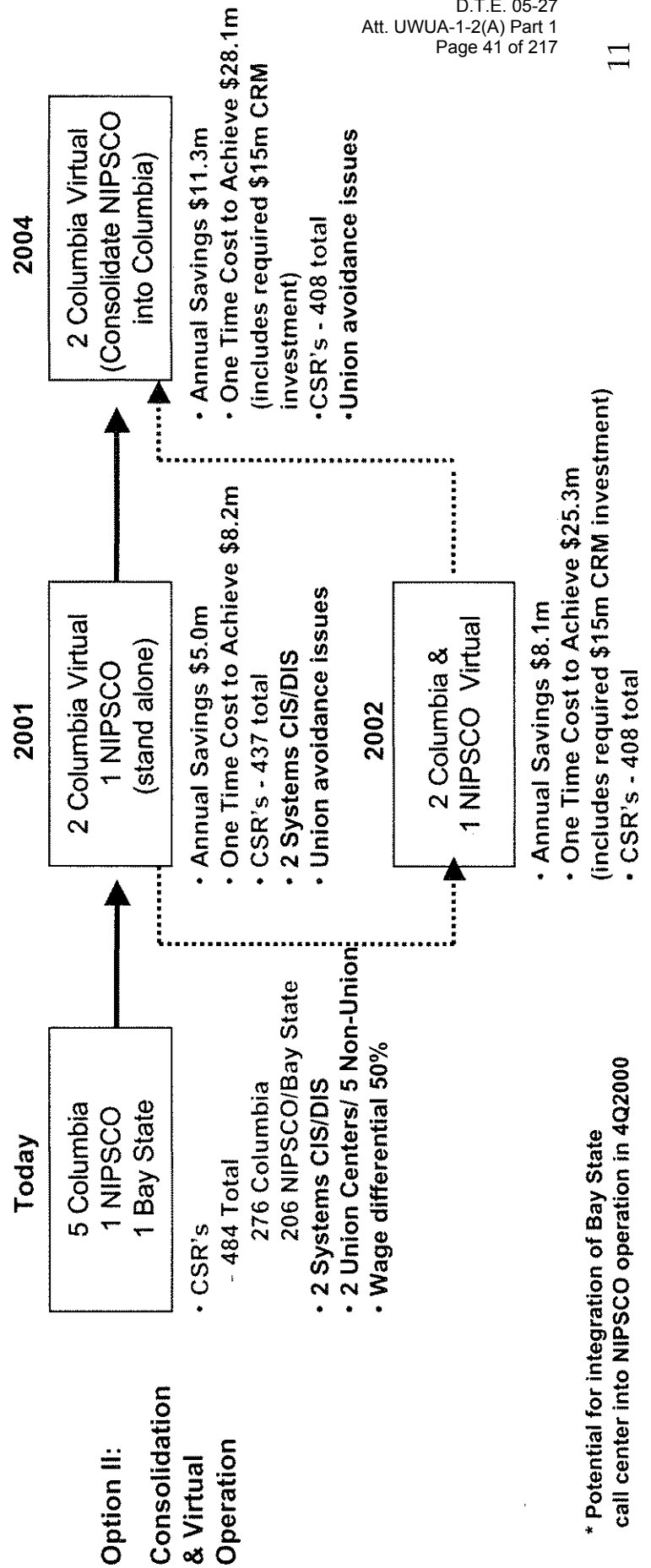
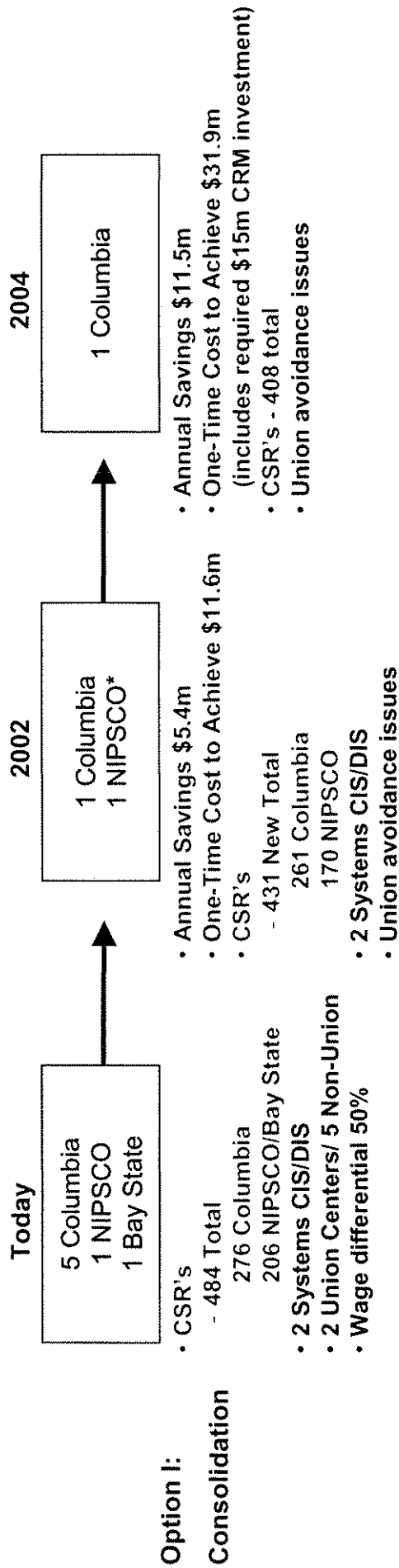
\* Depending upon scenario, severance ranges from \$4.5m - 10m, while training ranges from \$2m - 4.7m

\*\* Depending upon scenario, severance ranges from \$.4m - \$.5m, while training is \$0

\*\*\* 79 Bay State employees would be severed in Phase 1. An additional 165 (for a total of 244) are NiSource employees and would be severed in May 2004

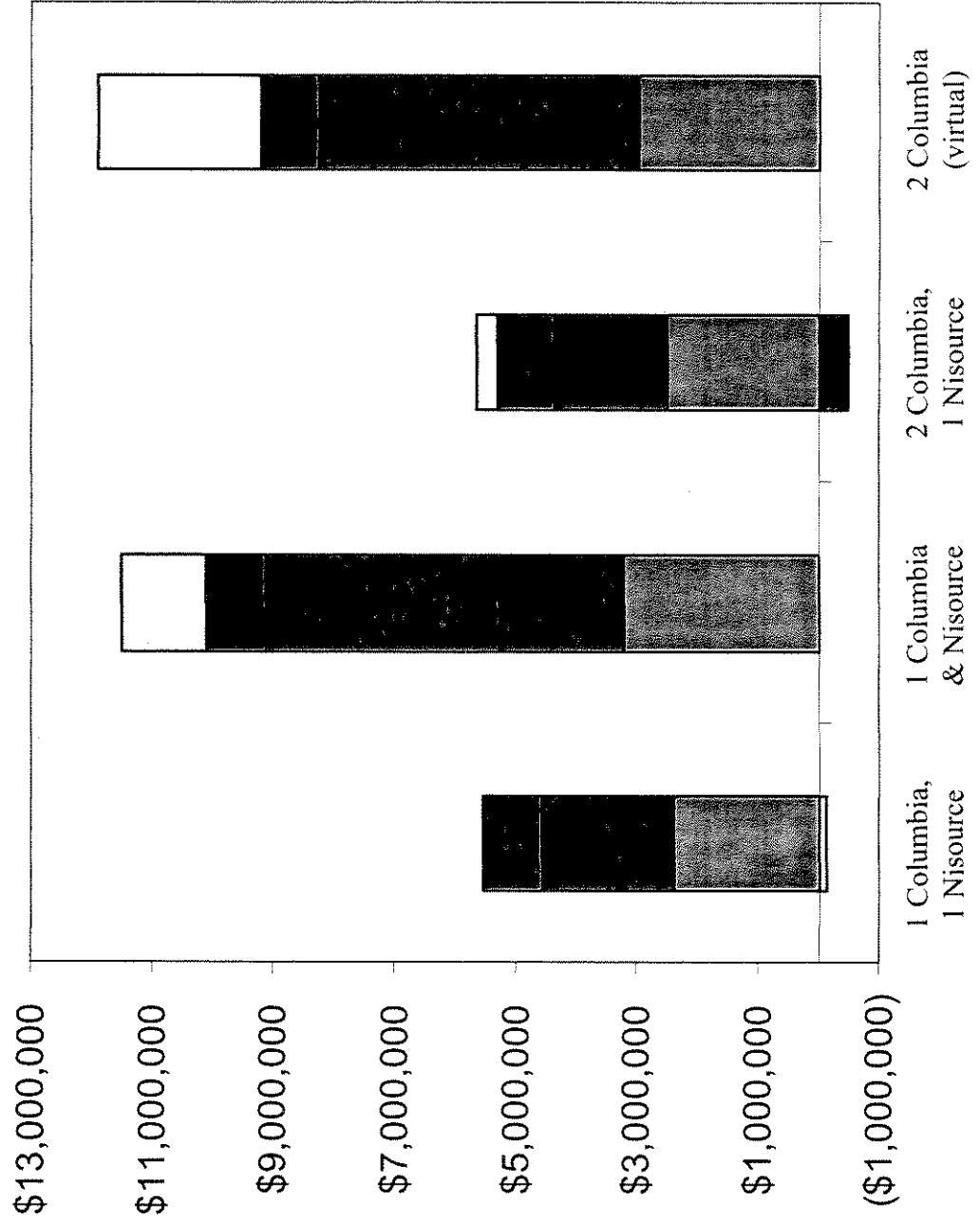
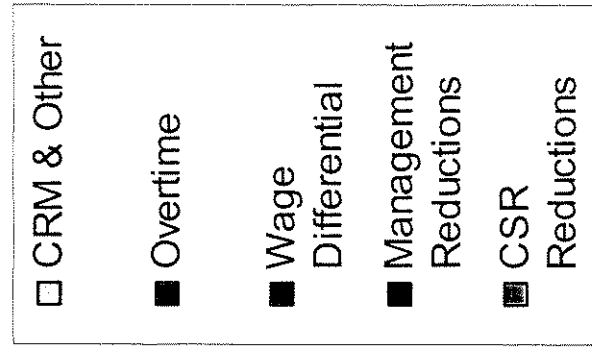
\*\*\*\* 15 - 30 of union employees will pool

# Call Center Consolidation Migration Timeline Options

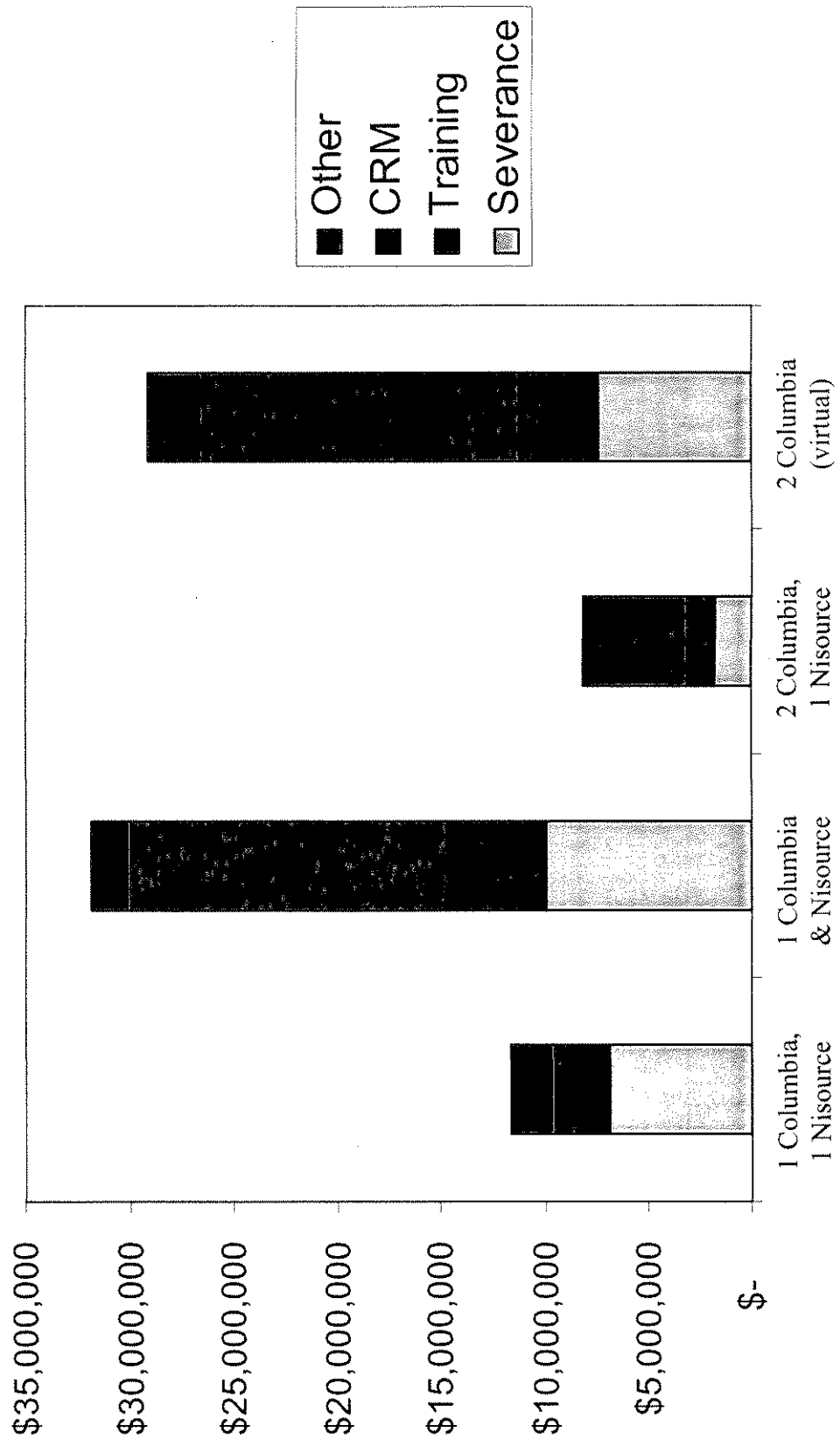


\* Potential for integration of Bay State call center into NIPSCO operation in 4Q2000

# Call Center Savings by Opportunity

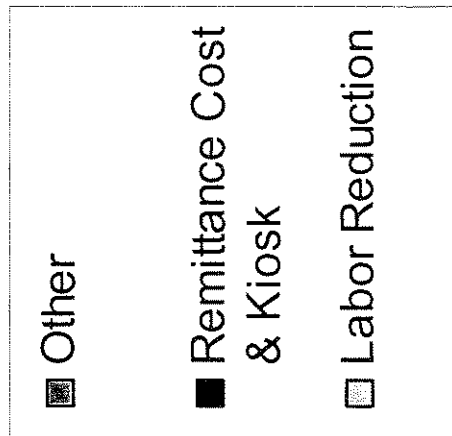
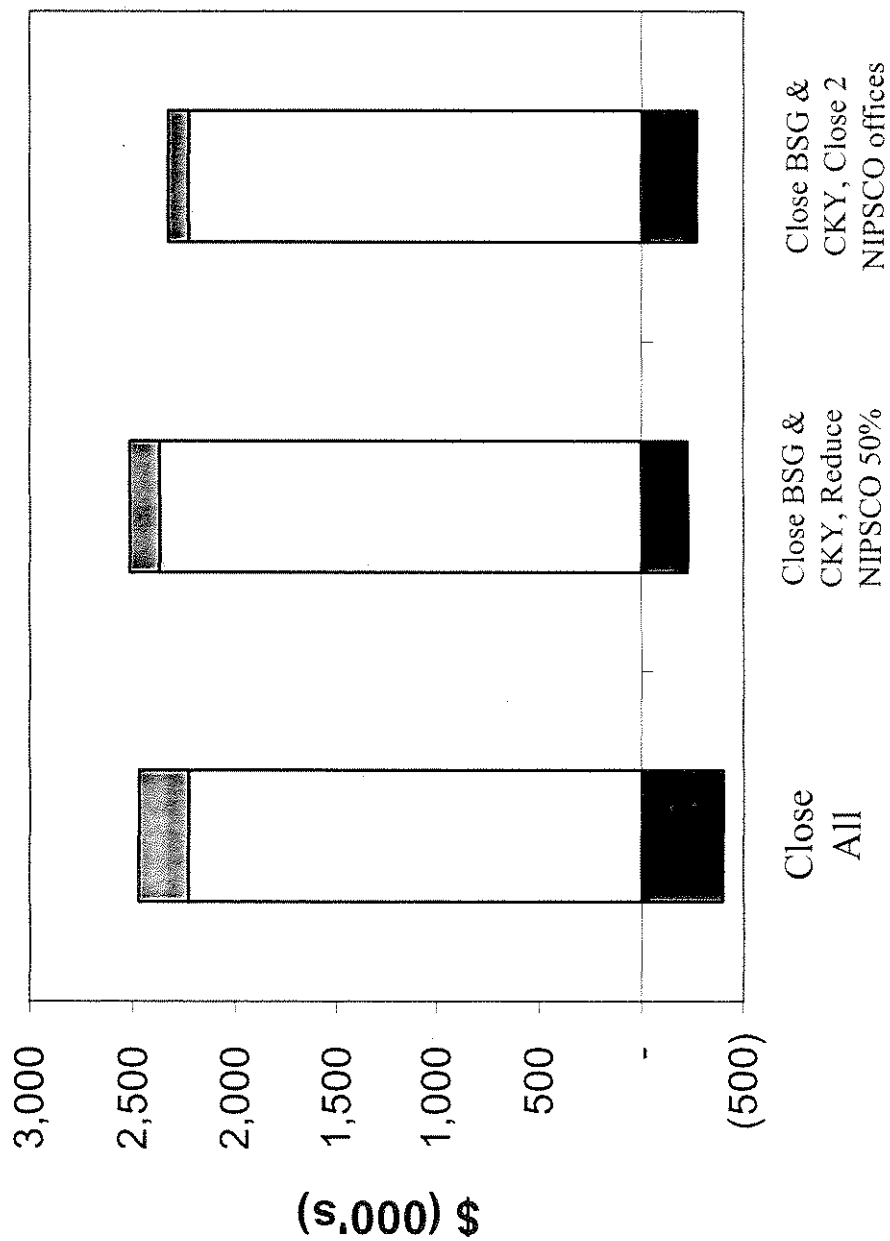


# Call Center Cost to Achieve by Opportunity

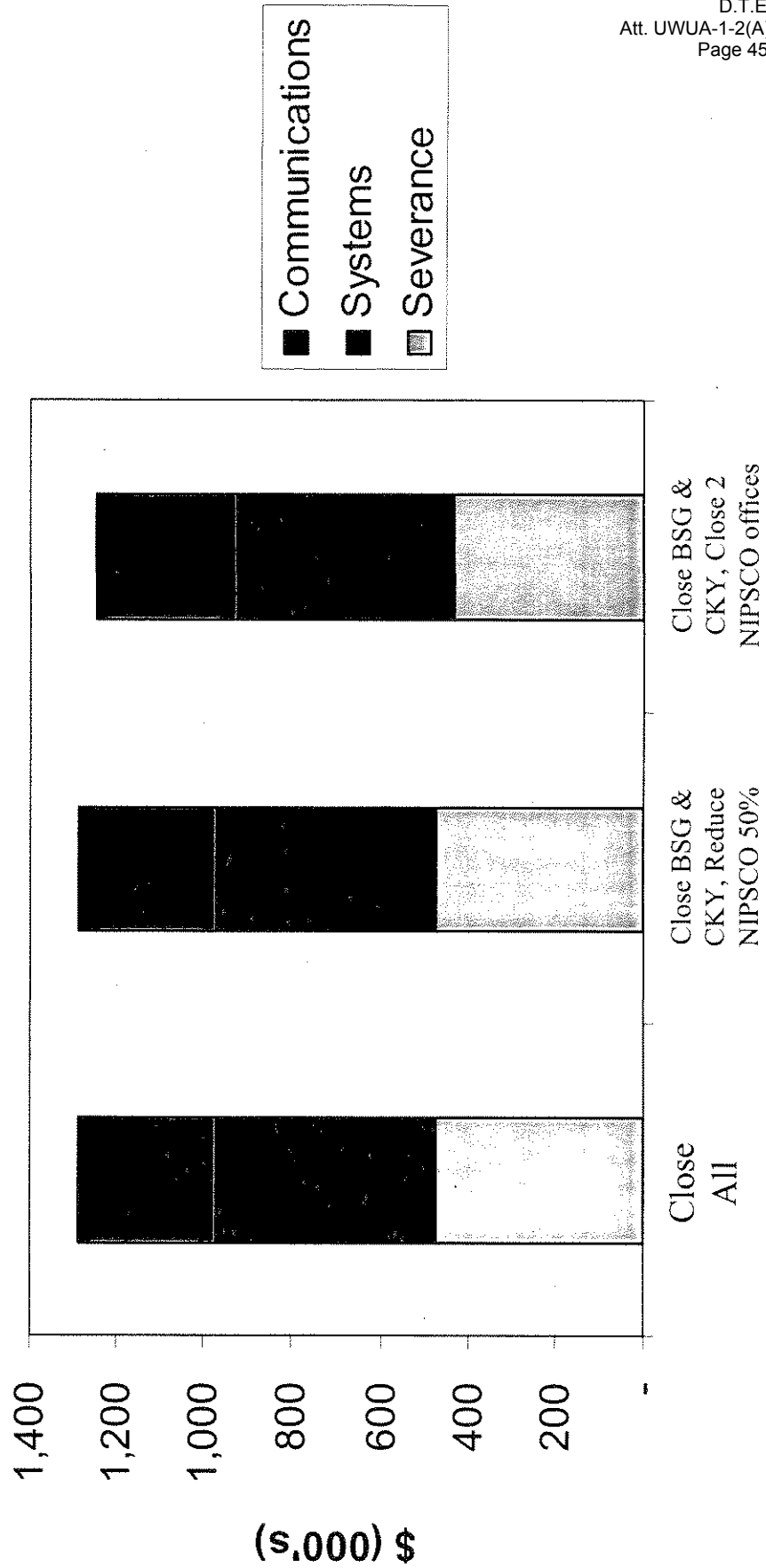




# Walk-In Savings by Opportunity



# Walk-In Cost to Achieve by Opportunity



**Team Reports: Opportunity Identification Phase Recommendations**  
**Opportunity Summary by Team**  
**Retail Customer Service/Sales & Marketing - Sales & Marketing**

(\$000's)

Optimize Customer Channel Organization	\$ 7,700	\$ 7,700			\$ 1,800*	\$ 3,800	2	59	61
Expand Products/Services to New Markets	\$ 2,000**	\$ 4,700**			\$ 500				
Implement Profitable Growth Initiative	\$ 300	\$ 300	\$ 3,000	\$ 3,000					
<b>TOTAL:</b>	\$10,000	\$12,700	\$ 3,000	\$ 3,000	\$ 2,300	\$ 3,800	2	59	61

\* Includes severance, relocation and training costs of \$ 1.7m

\*\* EBIT contribution

## **Sales & Marketing Strategic Statement**

**Leverage local brands**

**Focus on profitable growth: load and products & services**  
**Champion targeted value propositions**

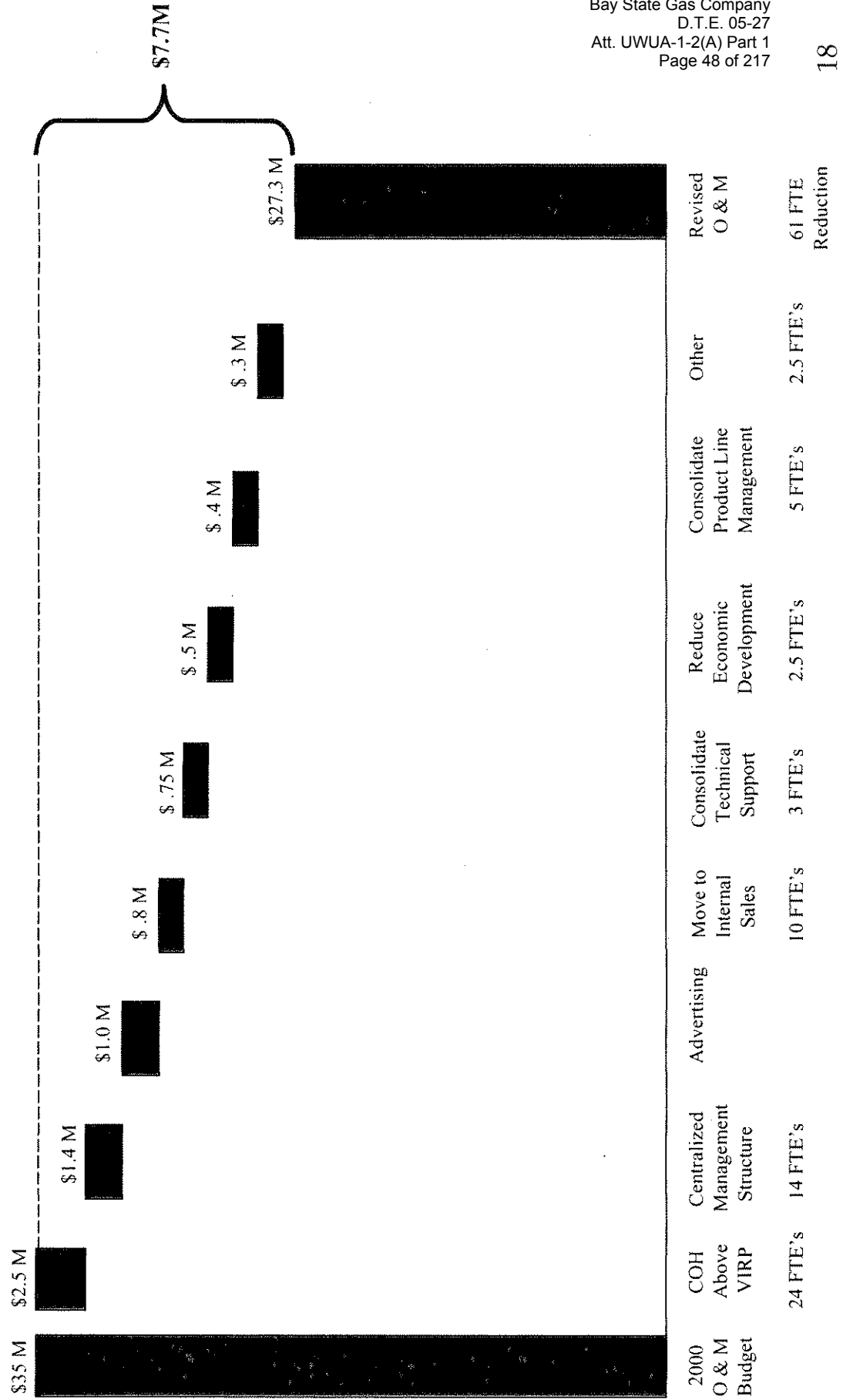
## **Organization Principles**

**Strategically align Customer Service and Sales & Marketing functions reporting through a common management structure**

- Key Accounts (External Sales Focus - Geographically Dispersed)
  - Evaluate sales force on “SUI”, Sales Under the Influence
  - Concentrate on customers where we have the “most to lose and most to gain”
- Residential & Small Commercial, New Business & Conversion (Internal Sales Focus)
- Common Services Function
  - Information Management
  - Market Research
  - Marketing Communications
  - New Product Development
  - Product Line Management
  - Mass Marketing

# Value of Sales & Marketing Reorganization Opportunity

## O & M Expense



## **Products & Services**

- Leverage Mass Market product names across service territories taking advantage of local LDC Brands (e.g. Guardian Care, Appliance Partner, etc.)
- Gain economies of scale in production of Mass Market communications and promotions
- Capitalize on bill insert promotion and payment via the utility bill for products and services
- Establish new or extended delivery channels which are critical to success

## Expanding Product & Service Offerings to New Markets

Product / Service	NIPSCO	Bay State	Columbia
<b>Consumer Programs</b>			
Outside House Gas Line Warranty	Review for C & I	Review for C & I	Gas Line Guarantee by CSP
In-House Gas Line Warranty	Gas Line Protection		In-House Guarantee by CSP
Bill Payment Insurance	Payment Power		Payment Partner by CSP
Appliance Warranty	Appliance Care		Appliance Partner by CSP
Furnace & Water Heater Warranty	ESP & ESP w/AG	Guardian Care	Appliance Partner by CSP
Contractor Referral	Contractor Connect		
Water Heater Leasing	Hot 2 Lease	Water Heater Lease	
Home Furnace Inspection	13 Point Inspection	Furnace Inspections	
Water Line Warranty			Water Line Guarantee by CSP
Sewer Line Warranty			Sewer Line Protection by CSP
<b>Energy Services &amp; Tech</b>			
Energy Services by EUSA			
Distributed Generation			
Equipment Leasing		Conversion Burners	
Web-Based Account Access	EVview		
<b>Construction Services</b>			
Gas & Electric			CGV Offering
Substation Services			CGV Offering, Gas only
Engineering Services			CGV Offering
Telecom Construction			Transcom
<b>Commodity &amp; Transmission</b>			
Parks & Loans			Significant Off Sys Sales
On-System Storage			
Alternative Fuels Rate			
Incremental Electric Sales			
Choice/Gas Unbundling			
<b>Other</b>			
Bill Insert Sales to 3rd Parties			

Existing  
Products/Services

Phase II Analysis

Potential for  
Future  
Analysis

# Gas Operations

*The Gas Operations team has been focused on three major functional areas*

<b>Team Leads</b>	NiSource - Bob Schacht Andersen Consulting - Curt Meeuwsen	Columbia Energy - Harris Marple IT - Chris Maturo
<b>Core Team</b>	<b>Transmission &amp; Storage</b> Columbia - Gary Forman	<b>Distribution</b> NiSource - Tim Dehring Columbia - Larry Smore
		<b>Distribution Supply/ Gas Control</b> NiSource - Dan Gavito

*Each area's recommended opportunities recognize and preserve the following:*

- Safety and Reliability
- Efficiency and Cost Savings
- Customer Service
- Existing and Future Sales Opportunities
- Recent Organization and Operational Excellence Initiatives



**Team Reports: Opportunity Identification Phase Recommendations**  
**Opportunity Summary by Team**  
**Gas Operations - Transmission & Storage**

(\$000's)

Additional TCO labor savings	\$7,000	\$7,000	\$0	\$0	\$0	\$0	\$0	19	67	86
Produce non-labor TCO savings	\$3,000	\$3,000	\$0	\$0	\$0	\$0	\$0	0	0	0
Reduction in CGT workforce	\$3,500	\$3,500	\$0	\$0	\$0	\$2,400	\$0	0	40	40
Investigate TCO/CGT Customer/Commercial Services	\$1,025	\$2,025	\$0	\$0	\$0	\$1,570	\$0	0	27	27
Dispose of under performing/non-core assets	\$0	\$3,000	\$0	\$0	\$0	\$1,250	\$0	20	5	25
Share buildings	\$1,044	\$2,152	\$0	\$0	\$0	\$0	\$915	0	0	0

(1) all amounts in this column represent severance and relocation costs (page total = \$5,220)

**Team Reports: Opportunity Identification Phase Recommendations**  
**Opportunity Summary by Team**  
**Gas Operations - Transmission & Storage**

(\$000's)

Further consolidate Field Services	\$2,500	\$2,500	\$0	\$0	\$0	\$1,250	\$0	0	33	33
	\$250-\$1,000	\$250-\$1,000	\$0	\$0	\$0	\$550	\$0	6	5	11
Shared maintenance at touch points	\$18,319-\$19,069	\$23,427-\$24,177	\$0	\$0	\$0	\$7,020	\$915	45	177	222
<b>TOTAL:</b>										

(1) all amounts in this column represent severance and relocation costs (page total = \$1,800, total = \$7,020)

**Team Reports: Opportunity Identification Phase Recommendations**  
**Opportunity Summary by Team**  
**Gas Operations - Distribution Supply / Gas Control**

(\$000's)

<b>Organization Integration</b>	<u>\$1,300</u>	<u>\$1,800</u>	<u>\$0</u>	<u>\$0</u>	<u>\$1,000</u>	<u>\$0</u>	<u>0</u>	<u>17</u>	<u>17</u>
<b>Process and System Improvements:</b>									
<b>Gas Control</b>	<u>\$0</u>	<u>\$1,700</u>	<u>\$0</u>	<u>\$0</u>	<u>\$1,200</u>	<u>\$2,000</u>	<u>6<sup>(1)</sup></u>	<u>10</u>	<u>16</u>
<b>Gas Supply</b>	<u>\$100</u>	<u>\$1,400</u>	<u>\$0</u>	<u>\$0</u>	<u>\$500</u>	<u>\$5,000</u>	<u>0</u>	<u>9</u>	<u>9</u>
<b>Additional Revenue Opportunities</b>	<u>\$3,000</u>	<u>\$3,000</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b><u>TOTAL:</u></b>	<u>\$4,400</u>	<u>\$7,900</u>	<u>\$0</u>	<u>\$0</u>	<u>\$2,700</u>	<u>\$7,000</u>	<u>6</u>	<u>36</u>	<u>42</u>

(1) 5 of the 6 would be placed in the NIPSCO pool

(2) 100% severance and relocation expense - no IT cost. Does not include retention or hiring costs.

# Team Reports: Opportunity Identification Phase Recommendations

## Opportunity Summary by Team

### Gas Operations - Distribution

(\$000's)

	1,800 - 4,500	5,600 - 7,800	200 - 500	620 - 860	4,000 - 5,100	-	4 (4)	66 - 86	70 - 90
Consolidate LDCs									
Consolidate Dispatch	250	669	-	-	864	53	7	4	11
Locate Screening	400	500	-	-	-	100	-	(5)	(5)
Outsource: Cathodic Protection, Locating, and Leak Survey	3,774	5,062	-	-	4,560	-	57	57	114
Consolidate Gas Meter Operations	350	750	-	-	400	-	8 (1)	12	20
Close and Dispose of Underutilized Buildings	1,125	2,250			109	(7,024) <sup>(2)</sup>	-	-	-
Divest Under-Performing assets	-	1,800 <sup>(3)</sup>	-		-	(14,700 - 29,400) <sup>(4)</sup>	28	4	32

(1) - FTE Reductions in parenthesis are the number of the stated union reductions that would be placed in the pool

(2) - Estimated one-time benefit from sale of buildings \$8,128 less \$1,104 cost to achieve

(3) - Does NOT include lost revenue of \$3.7 Million

(4) - Estimated one-time benefit from sale of assets 15-30M less 300-600 cost to achieve

# Team Reports: Opportunity Identification Phase Recommendations Opportunity Summary by Team Gas Operations - Distribution

(\$000's)

	759	938	100	100	223	104	3 (2)	3	6
Repair / Replace Pipe Best Practice									
Discontinue Providing Meter Loops	-	-	1,400	1,400	50	-	-	-	-
New Business Process	915	915	279	279	515	-	3	8	11
Automated Records and Mapping	543	1,086	-	-	-	750 (2)	15 (15)	-	15
Service Orders / Soft Close	575	595	-	-	-	- (3)	7 (5)	-	7
Non-Utility Service	6,000	7,968 (4)	-	-	3000	-	35	40	75
<b>TOTAL:</b>	<b>16,400 - 19,200</b>	<b>28,100 - 30,300</b>	<b>1,979 - 2,279</b>	<b>2,399 - 2,639</b>	<b>13,700 - 14,800</b>	<b>(20,717 - 35,417)</b>	<b>167 (27)</b>	<b>189 - 209</b>	<b>356 - 376</b>

(1) - FTE Reductions in parenthesis are the number of the stated union reductions that would be placed in the pool

(2) - Does NOT include \$3 Million in costs budgeted for FY2000

(3) - Does NOT include \$300,000 in costs budgeted for FY2000

(4) - Includes a revenue component \$2.4 Million at a cost of \$1.9 Million  
 (5) - The One-Time Cost to Achieve totals include \$13 - \$14 million in severance and \$500,000 in relocation expenses.

# Team Reports: Opportunity Identification Phase Recommendations Opportunity Summary by Team Gas Operations - Summary Totals

(\$000's)

Team Name												
Transmission & Storage	\$18,319 - \$19,069	\$23,427 - \$24,177	\$0	\$0	\$7,020	\$915	45	177	222			
Distribution Gas Supply/Control	\$4,400	\$7,900	\$0	\$0	\$2,700	\$7,000	6 <sup>(1)</sup>	36	42			
Distribution	16,400 - 19,200	28,100 - 30,300	1,979 - 2,279	2,399 - 2,639	13,700 - 14,800	(20,717 - 35,417)	167 (27)	189 - 209	356 - 376			
<b>TOTAL:</b>	<b>\$39,119 - \$42,669</b>	<b>\$59,427 - \$62,377</b>	<b>\$1,979 - \$2,279</b>	<b>\$2,399 - \$2,639</b>	<b>\$23,420 - \$24,520</b>	<b>(\$12,802 - \$27,502)</b>	<b>218</b>	<b>402 - 422</b>	<b>620 - 640</b>			

- (1) 5 of the 6 would be placed in the NIPSCO pool  
 (2) 100% severance and relocation expense - no IT cost. Does not include retention or hiring costs.

# Gas Operations

Our final analysis for Phase I shows a dramatic cost savings for the Gas Operations team

Transmission & Storage	Distribution	Distribution Supply / Gas Control
<b>Starting:</b> O&M \$165,000 Headcount 1,745	<b>Starting:</b> O&M \$199,000 Headcount 3,476	<b>Starting:</b> O&M \$10,000 Headcount 112
<b>Reduction<sup>(1)</sup>:</b> O&M ~\$24,000 (~15%) Headcount ~222 (~13%)	<b>Reduction:</b> O&M ~\$29,000 (~15%) Headcount ~250 (~11%)	<b>Reduction:</b> O&M ~\$4,900 (~49%) Headcount ~42 (~38%)

(1) Includes 7,000 related to additional VIRP

(\$,000)

# Corporate Support Summary

	Scope		Identified Savings	
	O&M (\$mm)	Employee Headcount	O&M (\$mm)	Employee Headcount
Finance & Accounting	\$ 46	460	\$21.7 47%	183 40%
Human Resources	\$ 30	166	\$10.1 33% 53%	88
Other Support	\$239	665	\$49.3 21%	214 32%
Total	<u>\$315</u>	<u>1,291</u>	<u>\$81.1</u> 26%	<u>485</u> 38%



# Corporate Support Summary

## Major Synergy Opportunities

1. Eliminate Duplicate Corporate Centers
2. Consolidate the Organizations
3. Move to Common Processes & Systems
4. Consolidate within Business Segments
5. All Other

	Annualized O&M Savings (\$mm)	Headcount Reduction (FTEs)
	\$23.5	82
	\$ 7.5	109
	\$14.7	125
	\$10.7	145
	\$24.7	24
<b>Total</b>	<u>\$81.1</u>	<u>485</u>

# ***Corporate Support - Finance & Accounting***

## ***Consolidate the Organizations***

<b><u>Description</u></b>	<ul style="list-style-type: none"><li>• Consolidate transactional functions for Finance, Accounting, Tax, and Treasury within one shared service center</li><li>• Shared Service management reports to business unit management</li><li>• No significant process or system changes</li><li>• Most savings through common management and supervision</li></ul>
<b><u>Savings</u></b>	<ul style="list-style-type: none"><li>• 65 FTEs = \$ 5.2 million</li><li>• Less \$1.2 million due to a loss of West Virginia tax benefit</li></ul>
<b><u>Costs to Implement</u></b>	<ul style="list-style-type: none"><li>• \$10.2 million for severance (181 FTEs severed &amp; 24 FTEs sent to union pool)</li><li>• \$ 0.9 million for hiring</li><li>• \$ 1.6 million for relocation</li><li>• \$ 1.0 million for transition labor</li></ul> <p><u>\$13.7 million total cost</u></p>
<b><u>Issues</u></b>	<ul style="list-style-type: none"><li>• Expect major employee turnover and upheaval:<ul style="list-style-type: none"><li>• removal of 205 employees</li><li>• hiring 89 FTEs plus 51 temporary employees</li><li>• training &amp; integration of new hires</li></ul></li></ul>

# ***Corporate Support - Finance & Accounting Move to Common Systems & Processes***

## **Description**

- Consolidate company-wide to one system and set of processes for General Ledger, Accounts Payable, Property, Costing, Budgets, & Payroll / Time Reporting

## **Savings**

- 81 FTEs = \$ 6.5 million (including 30 time entry clerks)
- \$4 million of IT savings charged to support departments (reduced mainframe charges and fewer FTEs)
- Savings from systems consolidation projected to begin realization late in 2002

## **Costs to Implement**

- Estimated \$20 million implementation effort
- Likely 5 year amortization period
- \$1.5 million severance (7 FTEs severed, 23 FTEs sent to pool)

## **Issues**

- Aggressive two year implementation schedule
- Systems implementation must be coordinated with human resources and supply chain
- Hiring and retaining skills necessary to implement simpler processes and systems, while continuing required finance & accounting functions

# ***Corporate Support - Finance & Accounting Consolidate within Business Segments***

## **Description**

- Combine Financial Management, Financial Planning and Performance Management for each of the four business segments:
  - Distribution (includes electric)
  - Transmission
  - E&P
  - Other (TPC, Primary Energy, etc.)
- No longer organized by company or legal entity
- Streamline and standardize budgeting and performance reporting

## **Savings**

- 37 FTEs = \$ 3.0 million
  - Finance & Accounting Mgmt: 22 FTEs --> 13 FTEs
  - Performance Mgmt and Budgeting: 88 FTEs --> 60 FTEs

## **Costs to Implement**

- \$1.9 million for severance

## **Issues**

- Need to more broadly address the impact on operating companies' strategy and accountability under this new business model

# Corporate Support - Finance & Accounting

## Other Savings

<b><u>Description</u></b>	<ul style="list-style-type: none"> <li>• Eliminate duplicate costs / renegotiate contracts and fees based on the combined entity</li> </ul>
<b><u>Savings</u></b>	<ul style="list-style-type: none"> <li>• Bank revolver fees \$0.5 million</li> <li>• Pension trustees, managers, consultants \$3.0 million</li> <li>• Audit, tax preparation, and consulting fees \$0.7 million</li> <li><b>Total</b> <u>\$4.2 million</u></li> </ul>
<b><u>Costs to Implement</u></b>	<ul style="list-style-type: none"> <li>• None</li> </ul>
<b><u>Issues</u></b>	<ul style="list-style-type: none"> <li>• Bank revolver default at Columbia due to change in control must be cured during fee negotiation and facility down-sizing</li> </ul>

# ***Corporate Support - Human Resources Consolidate the Organizations***

## **Description**

- Restructure HR organization to consist of:
  - Corporate HR - Strategy and Policy
  - Shared Services Center - Expertise and Transactions
  - Operating Companies HR teams - Local service delivery

## **Savings**

- 44 FTEs = \$ 3.5 million

## **Costs to Implement**

- \$2.2 million for severance
  - \$ .6 million for outplacement/relocation/retention
- \$2.8 million total cost

## **Issues**

- Providing quality HR service during a period of significant change
- Fully functioning shared services organization is dependent on enabling technology
- Retaining high quality employees

# ***Corporate Support - Human Resources Mgmt Move to Common Systems & Processes***

## **Description**

- Single, integrated information system hosted by an Application Service Provider (ASP).
- Full scale implementation of the HR Shared Services Model
- Incremental increase over HR organization consolidation savings

## **Savings**

- 44 FTEs = \$ 3.5 million (HR)
  - \$0.7 million of IT savings (fewer licenses, support and FTEs)
- 
- \$4.2 million total

## **Costs to Implement**

- \$2.2 million severance
  - \$1.0 million relocation
  - \$2.5 million software conversion & interfaces
  - \$ .5 million ASP transition and licenses
  - \$ .3 million outplacement and retention
- 
- \$6.5 million total

## **Issues**

- Unable to achieve highest level of productivity without one system
- Systems implementation must be coordinated with finance/accounting and supply chain

## ***Corporate Support - Human Resources Mgmt Other Savings***

### **Description**

- Eliminate Wharton program
- Suspend Associate/STEP programs for 1 year and redesign
- Consolidate Benefit vendors for Life and Medical plans

### **Savings**

• Management Development programs	\$2.0 million
• Benefit Vendor consolidation/redesign	\$ .4 million
	<hr/>
	\$2.4 million total

### **Costs to Implement**

No significant costs identified

### **Issues**

- Merger agreement benefit terms will delay savings from cost sharing insurance premium
- No consolidation of NiSource & Columbia Benefits Plans
- Higher retention risk of current Associates/STEP participants



# Corporate Support - Other Corporate Support

## Eliminate Duplicate Corporate Centers

### Other Corporate Support

#### Compliance/Policy

- Environmental
- Ethics Compliance
- Employee Health & Safety
- Internal Audit
- Legal

#### Messages

- Communications
  - Internal
  - External
- Corporate Citizenship/Philanthropy
- Community/Public Affairs
- Governmental/Regulatory Affairs
- Investor/Shareholder Relations
- Strategic Planning

#### Risk/Finance

- Enterprise Risk Management
- Insurance

#### Facilities

- Facilities/Real Estate
- Flight Operations
- Security
- Other (cafeteria, library)

# Corporate Support - Other Corporate Support

## Eliminate Duplicate Corporate Centers

### Description

- Eliminate duplicate corporate staff:
  - Executive
  - Shareholder/Investor Relations
  - Communications (Creative)
  - Corporate Legal
  - Insurance
  - Risk Management
  - Internal Audit
  - Strategic Planning
  - Corporate Citizenship/Philanthropy
- Eliminate duplicate Parent Company Expenses (e.g., Board of Director fees and Rating Agency Fees)

### Savings

- \$ 10.5 million = 82 FTEs
- \$ 5.0 million = Executive Incentive Compensation
- \$ 3.6 million = Parent Company Expenses
- \$ 4.46 million = Other outside fees & expenses
- Less \$40,000 outsource cost (recurring)
- \$23.52 million total

### Costs to Implement

- \$3.18 million for severance

### Issues

- Knowledge transfer to remaining employees

## ***Corporate Support - Other Corporate Support Consolidate within Business Segments***

### **Description**

- Establish functions by Business Segment and operate as a pool within and across segments as much as possible. For analysis purposes, planned business segments include: Transmission, Distribution, E & P, and Other.
- Leverage skills across functions instead of geographies
  - Legal
  - Communications / Community Relations
  - Regulatory/Governmental Affairs
  - Environmental
  - Employee Health & Safety

### **Savings**

- \$ 8.64 million = 108 FTEs
- Less \$1.02 in outsource fees for litigators (recurring)

\$7.62 million total

### **Costs to Implement**

- \$5.25 million - severance

### **Issues**

- Knowledge & relationship transfer to remaining employees.

# Corporate Support - Other Corporate Support

## Other Savings

### Description

- Close duplicate or underutilized facilities
  - Herndon Corporate Headquarters
- Consolidate Insurance Coverage
- Sell the Columbia Corporate Jet

### Savings

- \$ 12 million = Insurance premiums
- \$ 3.68 million = Herndon maintenance costs
- \$ 1.06 million = Jet lease & maintenance costs
- \$ 1.75 million = 24 FTEs (maintenance)
- \$ 10 million = Projected gain on sale of Herndon building (one-time)
- \$ 3 million = Projected revenue on sale of Corporate Jet (one-time)
- Less \$350,000 - outsource (security, maintenance) costs - (recurring)

---

\$31.14 million total

### Costs to Implement

- \$1.15 million - severance (one time)

### Issues

- Market to sell the Herndon facility and the corporate jet.

## (\$,000\$)

- ① Includes \$13,600 severance, \$1,595 relocation, \$960 transition and \$890 in hiring costs
- ② Union employees transferred to the pool
- ③ Represents net FTE reduction. Total severances and transfers equals 205 less 140 new hires

(S,000\$)

① Includes \$4,400 severance, \$1,900 relocation/retention  
② Union employees transferred to the pool

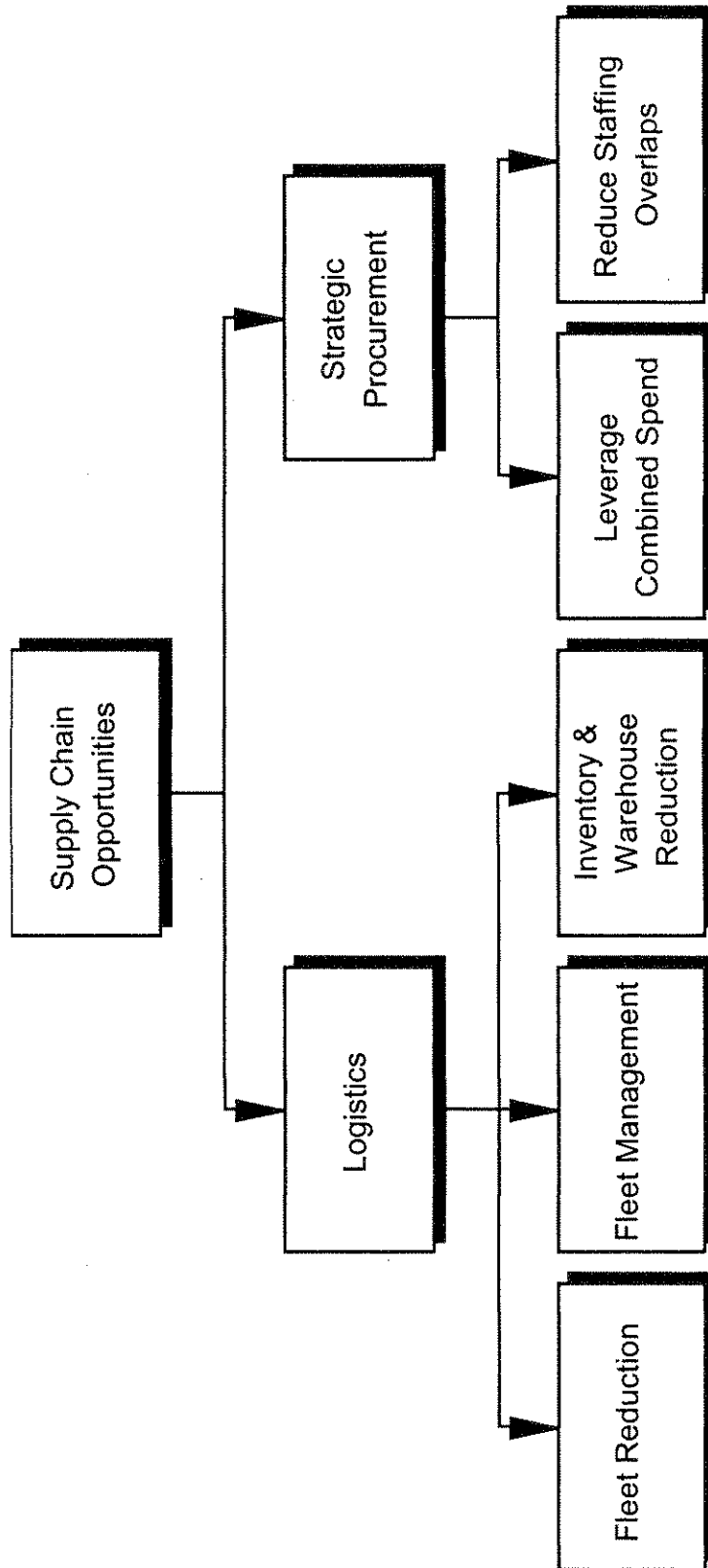
## (\$,000\$)

[illegible]

- ① Severance costs
- ② No union employees affected
- ③ Potential gain on sale of Herdon facility and Columbia Corporate jet

# Supply Chain

*The Supply Chain Team identified opportunities in five areas with total O&M savings in the range of \$14 - \$29 million with an additional capital savings in the range of \$16 - \$31 million.*





# Team Reports: Potential Opportunity Identification Phase Recommendations

## Potential Opportunity Summary by Team Supply Chain - Material Logistics (Fleet)

(\$000's)

Reduce size of fleet	\$2,073	\$2,073	\$1,383	\$1,383	\$1,383	(\$2,853) <sup>a</sup>				
Low	\$2,073	\$2,073	\$1,383	\$1,383	\$1,383	(\$2,853) <sup>a</sup>				
High	\$3,234	\$3,234	\$2,157	\$2,157	\$2,157	(\$4,805) <sup>b</sup>				
Move to an external provider network										
Low		\$1,290			\$860	\$4,400 <sup>d</sup>	62 <sup>c</sup>	8	70	
High		\$3,300			\$2,200	\$8,720 <sup>e</sup>	134 <sup>c</sup>	8	142	
<b>TOTAL:</b>	\$2,073	\$3,363	\$1,383	\$1,383	\$2,243	\$4,400	62	8	70	
Low	\$2,073	\$3,363	\$1,383	\$1,383	\$2,243	\$4,400	62	8	70	
High	\$3,234	\$6,534	\$2,157	\$2,157	\$4,357	\$8,720	134	8	142	

### Footnotes:

- (a) Disposal value of 725 excess units \$2,853
- (b) Disposal value of 1,536 excess units \$4,805
- (c) All positions covered by the job security clause
- (d) Includes severance of \$4,200(low) for 70 positions
- (e) Includes severance of \$8,520(high) for 142 positions
- (d),(c) No relocation costs assumed
- (d),(c) Minimal training costs assumed

# Supply Chain

*The most aggressive Fleet opportunity relies on complete migration to 3rd Party Outsourcing.*

	Current	Conservative	Aggressive
People	152 Positions	82 Positions	10 Positions
Equipment	NiSource and Columbia owned	Equipment located at 3 major NI garage locations	Complete migration to 3 <sup>rd</sup> party
IT Systems	Internal and 3 <sup>rd</sup> party	3 <sup>rd</sup> party will allow use by internal garages	3 <sup>rd</sup> party only
Facilities	NiSource – 13 garages Columbia – 7 garages	Migrate to 3 major NI locations	Re-deploy all dedicated garage space

(S.000\$)

Footnotes:

(b) Migrate T&D inventory to Just in Time with the use of a third party provider  
(c) \$12,100 inventory reduction less \$1,000 software implementation cost  
(d) \$30,000 inventory reduction less \$1,000 software implementation cost

Minimal training costs assumed

(f) All positions covered by the job security clause

# Supply Chain

*The most aggressive inventory reduction opportunity relies on significant 3rd Party Outsourcing.*

	Current	Conservative	Aggressive
People	89 Positions	89 Positions	39 Positions
Equipment	~ \$1 million in dedicated equipment for both companies	Same	Equipment required for internal warehouses
IT Systems	Combinations of both internal systems and use of 3 <sup>rd</sup> party provider's systems	Material forecasting functionality required	Combinations of both internal systems and use of 3 <sup>rd</sup> party provider's systems

# Team Reports: Potential Opportunity Identification Phase Recommendations

## Potential Opportunity Summary by Team

### Supply Chain - Strategic Procurement

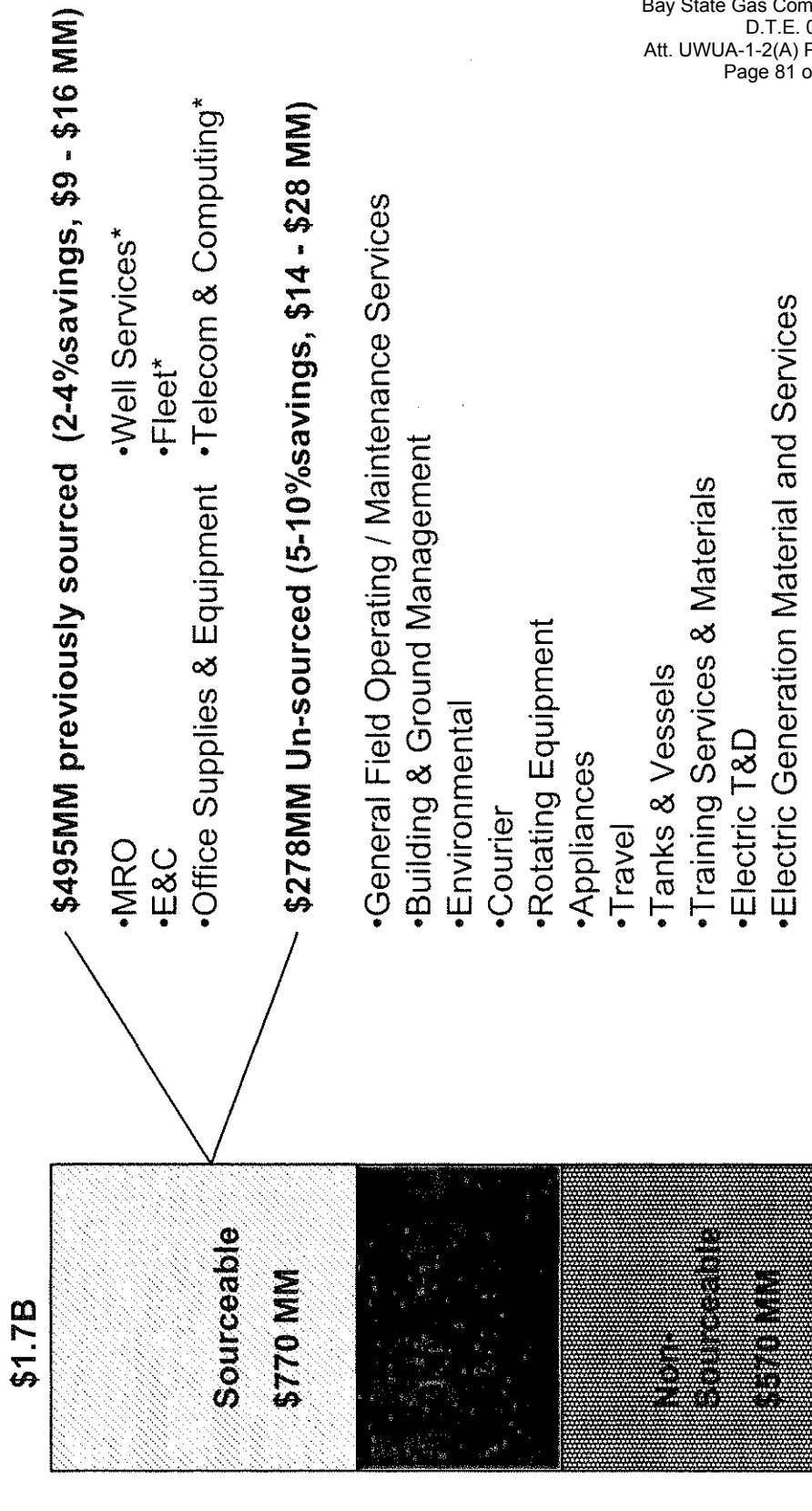
(\$000's)

• Leverage Combined Spend	Low	6,000	9,000	9,000	14,000	3,100*	500					
	High	12,000	18,000	17,000	26,000	3,100*	1,000					
• Consolidate Procurement Org.	Low	500	500			1,200*			N/A	7	7	
	High	1,100	1,100			1,600*			N/A	14	14	
<b>TOTAL:</b>	Low	6,500	9,500	9,000	14,000	4,300	500		N/A	7	7	
	High	13,100	19,100	17,000	26,000	4,700	1,000		N/A	14	14	

\*Severance, relocation, and training cost of \$1,300K to \$1,700K.

# Supply Chain

The sourceable spend for the combined companies is estimated at \$770 million.



\* Not included in savings estimate

## ***Information Technology Presentation Outline***

- IT Opportunities for Cost Savings
- Staffing Targets
- Preliminary Technology Requirements From Other Business Teams
- Opportunity Summary and Risks

# IT Potential Opportunities for Cost Savings

## Potential Opportunity Identification Phase Recommendations

### Potential Opportunity Summary

Data Center Consolidation	9,711	12,948			20,534	1,045			*
IT Help Desk Consolidation	650	866			587		11		11
Telecom Contract Consolidation	2,364	2,364							N/A
ATM Frame Relay Sourcing	424	424			34	32			N/A
Network Operations Center Consolidation	203	270			635		4		4
CEG IT Reorganization	4,280	4,280					41		41
CIS Inc. Realignment	725	725					1		1
EUSA Central IT Reductions	563	563							N/A
Enterprise IT Redesign	1,760	1,760					22		22
HW, SW, Other Support FTE reductions		4,000							**
<b>TOTAL:</b>	<b>20,680</b>	<b>28,200</b>			<b>21,790</b>	<b>1,077</b>	<b>79</b>		<b>79</b>

BASELINE  
SAVINGS  
POTENTIAL SAVING



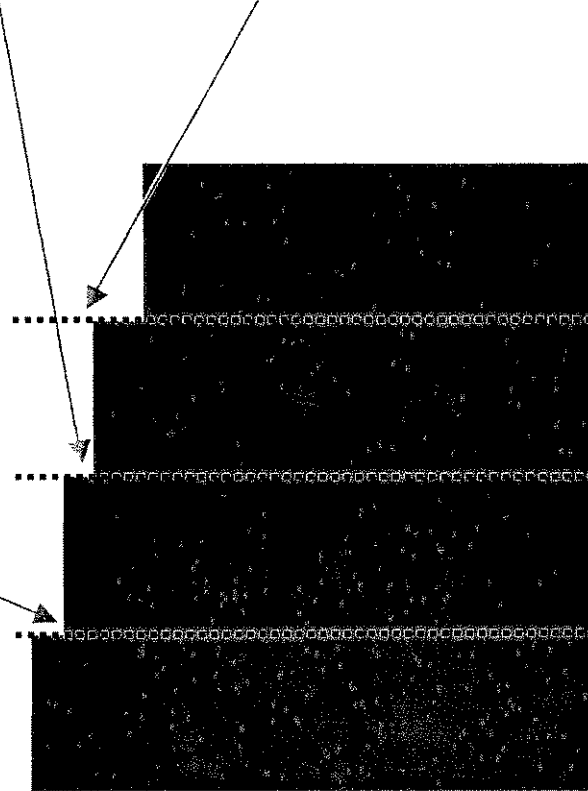
## ***IT Opportunities for Cost Savings Potential Additional Opportunities - Not Quantified***

- Infrastructure savings from facilities closings
  - Hardware, telecommunications, on-site support
- IT staff reductions dependent on business application integration and development requirements
  - Timing 12-24 months

**IT resources will be needed for consolidating existing applications and IT infrastructure over the next several years.**

- Level 1: 6.5% Reduction from 6/1/00 Baseline**
- Enabled by day 1 consolidations
  - IT infrastructure synergies / overlaps
  - Management synergies / overlaps
  - IT strategy and architecture planning
- Level 2: Additional 5% Reduction Potential**
- Enabled by facilities closings, new business organizations and user base reductions
  - IT infrastructure and support
  - Applications maintenance
  - Sourcing opportunities
- Level 3: Additional 10% to 15% Reduction Potential**
- Enabled by systems integration to common IT applications and IT infrastructure standardization

**3/31/00 Baseline**      **6/1/00 Revised Baseline**



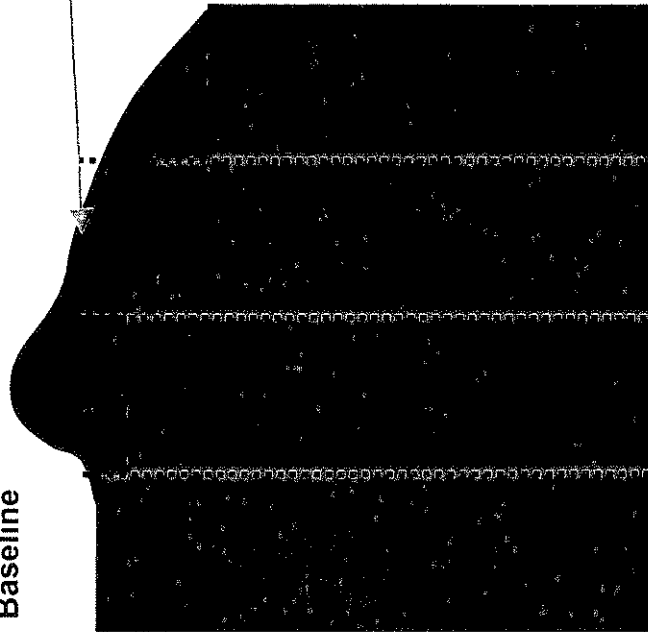
Year	2000	2000	2001	2002	2003	Total
FTE Totals	672	585	547	XXX	XXX	XXX
Net Change		-87	-38	-XX	-XX	-XXX
% Change		-12.9%	-6.5%	-X.X%	-X.X%	-XX.X%

**Forecasted IT Employees - Contracted Resources Excluded**  
(60 Non-IBM contracted resources at 6/1/00)

# IT Staffing Targets

IT staffing may "peak" in excess of projected staffing levels, dependent on merger integration requirements.

3/31/00 6/1/00  
Baseline Revised  
Baseline



IT Staffing "Peak" represents incremental staffing requirement that may be associated with new development or application consolidation associated with the merger.

Year	2000	2000	2001	2002	2003	Total
FTE Totals	672	585	547	XXX	XXX	XXX
Net Change		-87	-38	-XX	-XX	-XXX
% Change		-12.9%	-6.5%	-X.X%	-X.X%	-XX.X%

Forecasted IT Employees -  
Contracted Resources Excluded  
(60 Non-IBM contracted resources at 6/1/00)

## Preliminary Technology Requirements - Other Business Teams (Business Applications Only)

TEAM / APPLICATION	SUBTEAM	TIMING	IT COST TO ACHIEVE (\$000)
<b>Gas Operations *</b>			
SCADA (Common System)	Supply/Control	Q2 2001	2,000
Gas Supply Portfolio Mgt (Common System)	Supply/Control	Q2 2001	5,000
Automated Records/Mapping	Distribution Ops	Q1 2001	750
Service Orders (Soft Close)	Distribution Ops	Q1 2001	300
<b>Supply Chain</b>			
Fleet Mgt	Material Logistics	Q1 2001	0 - 250
Work Mgt/Materials	Material Logistics	Q4 2001	500 - 1,500
Data Warehouse to Support Sourcing	Strategic Procurement	Q4 2001	250 - 500
E-Commerce	Strategic Procurement	Deferred	N/A
<b>Customer Service / Sales and Marketing</b>			
Call Center Consolidation	Customer Service	Q1 2001	100
Integrated Voice Response	Customer Service	Q4 2000	250
Customer Relationship Mgt (CRM) (CIS Front-end)	Customer Service	Ongoing	5,000 - 10,000
Payment Centers / Customer Acctg Interfaces	Revenue Cycle	Q1 2001	100
Consolidated Bill Print / Technology Integration	Revenue Cycle	Q2 2001	50
Mass Marketing Products and Services	Sales and Mktg	Q1 2001	100
Sales Force Automation/Campaign Mgt	Sales and Mktg	Q1 2001	3,800 - 9,000
<b>Corporate Support</b>			
Financials (Common System)	Finance/Accounting	Q4 2002	20,000
Human Resources (Common System / ASP)	Human Resources	Q4 2002	2,500 - 5,000
<b>TOTAL</b>			<b>\$40,700 - \$54,900</b>

\* Distribution Operations technology requirements are dependent upon level of system consolidation achievable, given structure of operations - will require further analysis in Phase 2.

# Information Technology Opportunity Summary and Risks

## The opportunities and savings...

- Are significant,
- Obtainable,
- And enhance the technology portfolio

## Critical success factors key to achieving these savings must include...

- Acknowledging the transition to a new operating business environment
  - Maintaining a focus on current production environment and applications
  - Understanding the competing priorities of business team members when defining technology integration requirements
- Avoiding a totally inward focused view and overlooking changes in technology opportunities
- Managing project scope and costs - **"Keeping it simple!"**

# Baseline Targets by Team

(\$'000's)

<b>GAS OPERATIONS</b>				
Transmission/Storage	165,000	15.8%	\$32,000	1754
Distribution Gas Supply/Gas Control	9,000	0.9%	\$ 2,000	103
Distribution	199,000	19.0%	\$38,000	3476
<b>RETAIL CUSTOMER SERVICE/SALES &amp; MARKETING</b>				
Customer Service	62,000	5.9%	\$12,000	811
Sales & Marketing	56,000	5.3%	\$11,000	321
Revenue Cycle	92,000	8.8%	\$18,000	684
<b>CORPORATE SUPPORT</b>				
Finance/Accounting Management	46,000	4.4%	\$ 9,000	414
Human Resources Management	30,000	2.9%	\$ 6,000	189
Other Corporate Support	241,000	23.1%	\$46,000	663
<b>SUPPLY CHAIN</b>				
	24,000	2.3%	\$ 5,000	299
<b>INFORMATION TECHNOLOGY</b>				
	120,000	11.5%	\$23,000	614
<b>TOTAL</b>	1,046,000	100.0%	\$200,000	9319

\*Includes all NiSource Inc. and Columbia Energy Business Units where applicable  
 \*\*Targets were assigned based on budget dollars only

# Potential Opportunities Identified vs. Baseline Targets Summary

## Roll-up of All Teams

(\$000's)

<b>GAS OPERATIONS</b>				
Transmission/Storage	\$23,427-24,177	\$32,000	(\$8,573-7,823)	98-107
Gas Supply/Control	\$ 7,900	\$ 2,000	\$ 5,900	0
Distribution	\$28,100-30,300	\$38,000	(\$9,900-7,700)	96-124
<b>RETAIL CUSTOMER SERVICE/ SALES &amp; MARKETING</b>				
Customer Service	\$7,300-14,200	\$12,000	(\$4,700)-2,200	0-59
Sales & Marketing	\$12,700	\$11,000	\$1,700	0
Revenue Cycle	\$9,515-10,730	\$18,000	(\$8,500-7,300)	91-106
<b>CORPORATE SUPPORT</b>				
Finance/Accounting Management	\$21,640	\$ 9,000	\$12,640	0
Human Resources Management	\$10,120	\$ 6,000	\$4,120	0
Other Corporate Support	\$49,339	\$46,000	\$3,339	0
<b>SUPPLY CHAIN</b>	\$13,713-28,934	\$ 5,000	\$8,713-23,934	0
<b>INFORMATION TECHNOLOGY</b>	\$28,200	\$23,000	\$5,200	0
<b>TOTAL</b>	\$211,939-238,210	\$202,000	\$9,939-36,210	285-396

\* Assumes \$80,000 loaded cost per employee.

# Team Reports: Opportunity Identification Phase Recommendations

## Potential Opportunity Summary by Team

(\$000's)

CS-Sales & Marketing	\$10,000	\$12,700	\$3,000	\$2,300	\$3,800	2	59	61
CS-Customer Service	\$3,700-4,700	\$7,300-14,200	\$0	\$7,200-15,200	\$2,100-29,700	112-290	157-248	269-538
CS-Revenue Cycle	\$5,370-6,620	\$9,515-10,730	\$300	\$5,836-6,256	\$0	192	55	247
GO-Trans & Storage	\$18,319-19,069	\$23,427-24,177	\$0	\$7,020	\$915	45	177	222
GO- Gas Supply	\$4,400	\$7,900	\$0	\$2,700	\$7,000	6	36	42
GO- Distribution	\$16,400-19,200	\$28,100-30,300	\$2,399-2,639	\$13,700-14,800	(\$35,417-20,717)	167	189-209	356-376
Corp Support - F&A	\$11,160	\$21,640	\$0	\$17,045	\$20,000	47	136	183
Corp Support - HR	\$5,920	\$10,120	\$0	\$6,300	\$3,000	0	88	88
Corp Support - Other	\$49,339	\$49,339	\$0	\$9,575	(\$13,000)	0	214	214





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# **Gas Operations - Phase I Findings**

## **June 29, 2000**

***The Gas Operations team has been focused on three major functional areas***

<b>Team Leads</b>	NiSource - Bob Schacht Andersen Consulting - Curt Meeuwsen	Columbia Energy - Harris Marple IT - Chris Maturro	
	<b>Transmission &amp; Storage</b> Columbia - Gary Forman	<b>Distribution</b> NiSource - Tim Dehring Columbia - Larry Smore	<b>Distribution Supply/ Gas Control</b> NiSource - Dan Gavito
	<b>Core Team</b>		

***Each area's recommended opportunities recognize and preserve the following:***

- Safety and Reliability
- Efficiency and Cost Savings
- Customer Service
- Existing and Future Sales Opportunities
- Recent Organization and Operational Excellence Initiatives



(\$,000\$)

Opportunity Title	On-Going Savings (Booked) by Year				One-Time Cost to Achieve		FTE Reductions		
	O & M / EBIT		Capital		O & M <sup>(1)</sup>	Capital	Union	Non-Union	Total
	2001	2002 +	2001	2002 +					
Additional TCO labor savings	\$7,000	\$7,000	\$0	\$0	\$0	\$0	19	67	86
Produce non-labor TCO savings	\$3,000	\$3,000	\$0	\$0	\$0	\$0	0	0	0
Reduction in GULF workforce	\$3,500	\$3,500	\$0	\$0	\$2,400	\$0	0	40	40
Investigate TCO/CGT Customer/Commercial Services	\$1,025	\$2,025	\$0	\$0	\$1,570	\$0	0	27	27
Dispose of under performing/non-core assets	\$0	\$3,000	\$0	\$0	\$1,250	\$0	20	5	25
Share buildings	\$1,044	\$2,152	\$0	\$0	\$0	\$915	0	0	0

(1) all amounts in this column represent severance and relocation costs (page total = \$5,220)

**Team Reports: Opportunity Identification Phase Recommendations**  
**Opportunity Summary by Team**  
**Team Name - Transmission & Storage**

(\$000's)

Opportunity Title	On-Going Savings (Booked) by Year			One-Time Cost to Achieve		FTE Reductions	
	O & M / EBIT		Capital	O & M <sup>(1)</sup>	Capital	Union	Non-Union
	2001	2002 +					
Opportunities to be Pursued in Phase II:							
Further consolidate Field Services	\$2,500	\$2,500	\$0	\$1,250	\$0	0	33
Shared maintenance at touch points	\$250-\$1,000	\$250-\$1,000	\$0	\$550	\$0	6	5
<b>TOTAL:</b>	\$18,319-\$19,069	\$23,427-\$24,177	\$0	\$7,020	\$915	45	177
							222

(1) all amounts in this column represent severance and relocation costs (page total = \$1,800, total = \$7,020)

**Team Reports: Opportunity Identification Phase Recommendations**  
**Opportunity Summary by Team**  
**Gas Operations - Distribution Supply / Gas Control**

(\$'000's)

Opportunity Title	On-Going Savings (Booked) by Year				One-Time Cost to Achieve		FTE Reductions	
	O & M / EBIT		Capital		O & M <sup>(2)</sup>	Capital	Union	Non-Union
	2001	2002 +	2001	2002 +				
Opportunities to be Pursued in Phase II:								
Organization Integration	\$1,300	\$1,800	\$0	\$0	\$1,000	\$0	0	17
Process and System Improvements:								
Gas Control	\$0	\$1,700	\$0	\$0	\$1,200	\$2,000	6 <sup>(1)</sup>	10
Gas Supply	\$100	\$1,400	\$0	\$0	\$500	\$5,000	0	9
Additional Revenue Opportunities	\$3,000	\$3,000	\$0	\$0	\$0	\$0	0	0
<b>TOTAL:</b>	<b>\$4,400</b>	<b>\$7,900</b>	<b>\$0</b>	<b>\$0</b>	<b>\$2,700</b>	<b>\$7,000</b>	<b>6</b>	<b>36</b>
								<b>42</b>

(1) 5 of the 6 would be placed in the NIPSCO pool

(2) 100% severance and relocation expense - no IT cost. Does not include retention or hiring costs.

# Team Reports: Opportunity Identification Phase Recommendations

## Opportunity Summary by Team

### Gas Operations - Distribution

(\$000's)

Opportunity Title	On-Going Savings (Booked) by Year				One-Time Cost to Achieve		FTE Reductions	
	O & M / EBIT		Capital		O & M	Capital	Union <sup>(1)</sup>	Non-Union
	2001	2002 +	2001	2002 +				
Consolidate LDCs	1,800 - 4,500	5,600 - 7,800	200 - 500	620 - 860	4,000 - 5,100	-	4 (4)	66 - 86
Consolidate Dispatch	250	669	-	-	864	53	7	4
Locate Screening	400	500	-	-	-	100	-	(5)
Outsource: Cathodic Protection, Locating, and Leak Survey	3,774	5,062	-	-	4,560	-	57	57
Consolidate Gas Meter Operations	350	750	-	-	400	-	8 (1)	12
Close and Dispose of Underutilized Buildings	1,125	2,250	-	-	109	(7,024) <sup>(2)</sup>	-	-
Divest Under-Performing assets	-	1,800 <sup>(3)</sup>	-	-	-	(14,700 - 29,400) <sup>(4)</sup>	28	4
								32

(1) - FTE Reductions in parenthesis are the number of the stated union reductions that would be placed in the pool

(2) - Estimated one-time benefit from sale of buildings \$8,128 less \$1,104 cost to achieve

(3) - Does NOT include lost revenue of \$3.7 Million

(4) - Estimated one-time benefit from sale of assets 15-30M less 300-600 cost to achieve

# Team Reports: Opportunity Identification Phase Recommendations Opportunity Summary by Team Gas Operations - Distribution

(\$000's)

Opportunity Title	On-Going Savings (Booked) by Year			One-Time Cost to Achieve		FTE Reductions	
	O & M / EBIT		Capital	O & M <sup>(5)</sup>	Capital	Union <sup>(1)</sup>	Non-Union
	2001	2002 +					
Repair / Replace Pipe Best Practice	759	938	100	223	104	3 (2)	3
Discontinue Providing Meter Loops	-	-	1,400	50	-	-	-
New Business Process	915	915	279	515	-	3	8
Automated Records and Mapping	543	1,086	-	-	750 (2)	15 (15)	-
Service Orders / Soft Close	575	595	-	-	- (3)	7 (5)	-
Non-Utility Service	6,000	7,968 (4)	-	3000	-	35	40
<b>TOTAL:</b>	<b>16,400 - 19,200</b>	<b>28,100 - 30,300</b>	<b>2,399 - 2,639</b>	<b>13,700 - 14,800</b>	<b>(20,717 - 35,417)</b>	<b>167 (27)</b>	<b>189 - 209</b>
							<b>356 - 376</b>

(1) - FTE Reductions in parenthesis are the number of the stated union reductions that would be placed in the pool

(2) - Does NOT include \$3 Million in costs budgeted for FY2000

(3) - Does NOT include \$300,000 in costs budgeted for FY2000

(4) - Includes a revenue component \$2.4 Million at a cost of \$1.9 Million

(5) - The One-Time Cost to Achieve totals include \$13 - \$14 million in severance and \$500,000 in relocation expenses.



**Team Reports: Opportunity Identification Phase Recommendations**  
**Opportunity Summary by Team**  
**Gas Operations - Summary Totals**

(\$000's)

Opportunity Title	On-Going Savings (Booked) by Year				One-Time Cost to Achieve		FTE Reductions	
	O & M / EBIT		Capital		O & M <sup>(2)</sup>	Capital	Union	Non-Union
	2001	2002 +	2001	2002 +				
Team Name								
Transmission & Storage	\$18,319 - \$19,069	\$23,427 - \$24,177	\$0	\$0	\$7,020	\$915	45	177
Distribution Gas Supply/Control	\$4,400	\$7,900	\$0	\$0	\$2,700	\$7,000	6	36
Distribution	16,400 - 19,200	28,100 - 30,300	1,979 - 2,279	2,399 - 2,639	13,700 - 14,800	(20,717 - 35,417)	167 (27)	189 - 209
<b>TOTAL:</b>	<b>\$39,119 - \$42,669</b>	<b>\$59,427 - \$62,377</b>	<b>\$1,979 - \$2,279</b>	<b>\$2,399 - \$2,639</b>	<b>\$23,420 - \$24,520</b>	<b>(\$12,802 - \$27,502)</b>	<b>218</b>	<b>402 - 422</b>
								<b>620 - 640</b>

**Our final analysis for Phase I shows a dramatic cost savings for the Gas Operations team**

(\$,000)

Transmission & Storage	Distribution	Distribution Supply / Gas Control
<b>Starting:</b> O&M \$165,000 Headcount 1,745	<b>Starting:</b> O&M \$199,000 Headcount 3,476	<b>Starting:</b> O&M \$10,000 Headcount 112
<b>Reduction<sup>(1)</sup></b> O&M ~\$24,000 (~15%) Headcount ~222 (~13%)	<b>Reduction:</b> O&M ~\$29,000 (~15%) Headcount ~250 (~11%)	<b>Reduction:</b> O&M ~\$4,900 (~49%) Headcount ~42 (~38%)

(1) Includes 7,000 related to additional VIRP